1994 ANNUAL REPORT

DOMTAR

CORPORATE PROFILE

Domtar is a major North American manufacturer of pulp and paper products and construction materials. A leading manufacturer and marketer of printing and writing papers, Domtar is also a significant Canadian producer of containerboard and corrugated containers and is a major Eastern Canadian lumber producer. Likewise, Domtar is one of the continent's largest manufacturers of decorative panels and gypsum products.

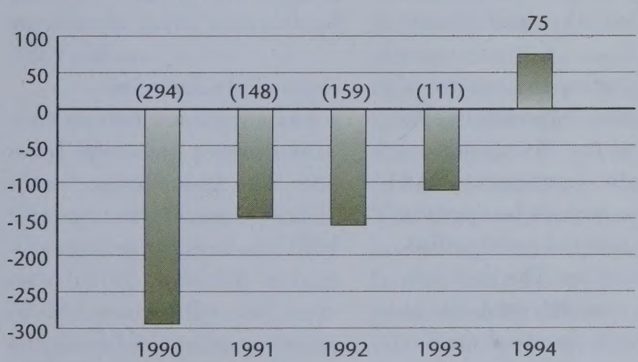
TABLE OF CONTENTS

(in millions of Canadian dollars, except per share amounts and statistical data)

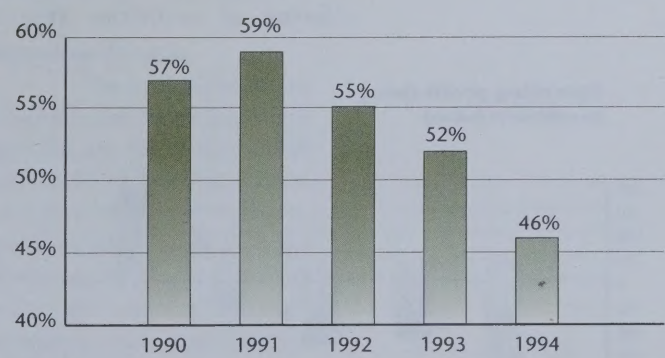
	1994	1993	1992
Sales	**$ 2,141**	$ 1,703	$ 1,621
Operating profit (loss)	**188**	(52)	(133)
Earnings (loss) from continuing operations	**33**	(125)	(156)
Net earnings (loss)	**75**	(111)	(159)
Net cash flow from (used for) continuing operations	**159**	(25)	(100)
Additions to property, plant and equipment	**243**	107	76
Total assets	**2,841**	2,691	2,670
Per common share			
Earnings (loss) from continuing operations (1)			
Basic	**$ 0.23**	$ (1.01)	$ (1.33)
Fully diluted	**0.22**		
Net earnings (loss) (1)			
Basic	**$ 0.56**	$ (0.90)	$ (1.36)
Fully diluted	**0.46**		
Year-end book value	**$ 5.23**	$ 4.69	$ 5.57
Share price at year-end on Montréal Stock Exchange	**$ 9 5/8**	$ 8 1/2	$ 5 3/8
Return on common shareholders' equity	**11%**	(18)%	(23)%
Debt ratio (2)	**46:54**	52:48	55:45

(1) The 1994 and 1992 results include the after-tax impact of unusual items of $0.03 and $(0.11) per share, respectively.
(2) Ratio of debt, net of short-term investments and of short-term deposits held in trust, to convertible debentures and shareholders' equity.

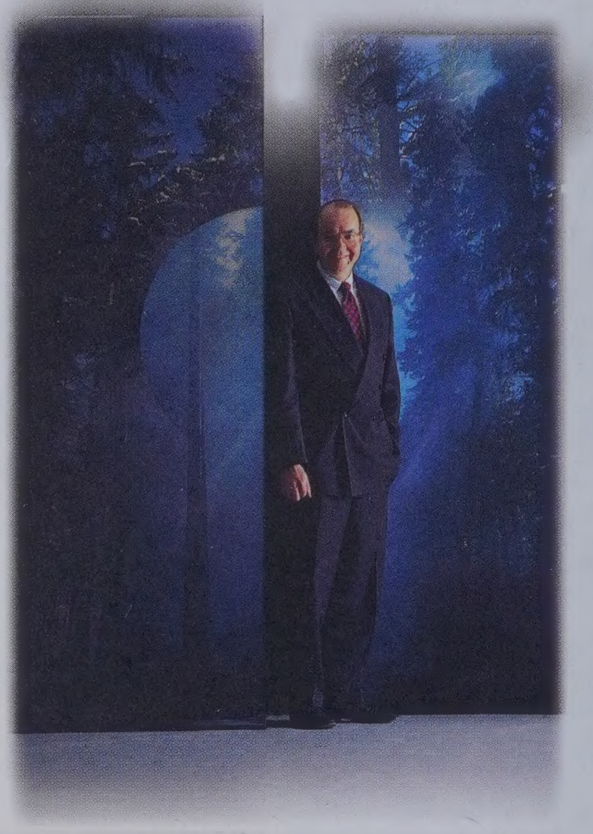
Net earnings (loss)
(in millions of dollars)



Debt to capitalization percentage



Stephen C. Larson
President and Chief Operating Officer



Domtar's improved financial results, significant as they are, do not fully convey the degree of commitment by all employees that lies behind a turnaround of this magnitude.

In 1994, Domtar reported net earnings of $75 million, which includes a $33-million net gain on divestiture of businesses. This contrasts with a net loss of $111 million experienced in 1993.

Domtar's sales have increased by more than 25%, while operating results have improved from a loss of $52 million to a profit of $188 million.

Higher selling prices, a weaker Canadian dollar and increasing demand have all contributed to this turnaround, but better market conditions alone could not account for a recovery of these dimensions. The results were also the outgrowth of a partnership established among Domtar's management, employees, suppliers and customers.

This partnership has driven the Corporation's recovery, resulting in improved productivity and reduced costs. In combination with our ongoing strategy, it will ensure that Domtar is competitively positioned for the future.

Strategic Initiatives

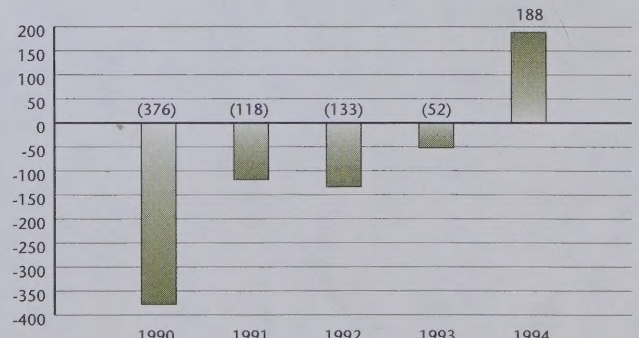
Consistent with the strategy of narrowing its focus and concentrating on businesses in which it enjoys a discernible competitive advantage, Domtar disposed of its Newsprint and Uncoated Groundwood Papers division along with its related lumber business to Alliance Forest Products Inc. during 1994, through an initial public offering of securities (the «Alliance transaction»). It also disposed of its Commercial Roofing and Insulation division.

The Board of Directors approved a $31-million investment for the installation of a second cut-size sheeter at the Windsor, Québec, communication papers mill. This will expand the facility's position in the fast growing copy paper market by 110,000 tons, upon completion in the third quarter of 1995.

During the course of the year, the Corporation also considered the divestiture of the gypsum products and decorative panels businesses through an initial public offering of securities. The decision, however, was deferred due to unfavourable financial market conditions and the pending conclusion of a strategic review in the spring of 1995.

The Pulp division is scheduled to undergo an extensive modernization program in 1995-1996. An investment of $245 million at the Lebel-sur-Quévillon, Québec, mill will result in a more efficient operation, compliance with new environmental regulations and increased capacity.

Operating profit (loss)
(in millions of dollars)



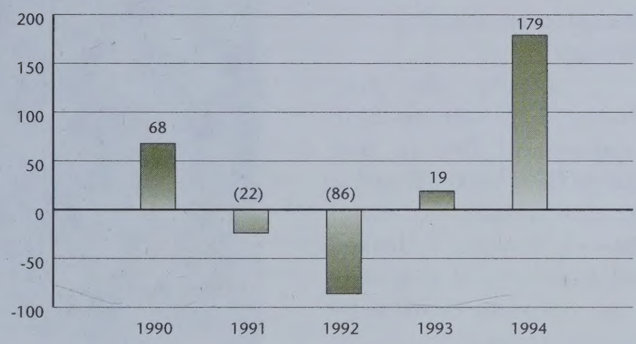
The Corporation's commitment to sustainable development has resulted not only in economic benefits, but in environmental benefits as well. Bringing to fruition an initiative begun in 1993, the Crystal pulp mill, which is part of the Cornwall, Ontario, speciality fine papers complex, is now producing recycled pulp from old corrugated containers. This operation comes on stream at a critical time, as it meets increasing demand for recycled fibre in Domtar's fine papers product line. Furthermore, the economic impact of this new facility has not gone unnoticed: the Cornwall mill received the Ontario Premier's Council Economic Renewal Award for 1994.

Liquidity Problems Resolved

One of the foremost issues faced by Domtar since 1990 has been its liquidity position. Reduction of the Corporation's debt was crucial to a successful recovery. The Alliance transaction was a very positive step in this regard, generating gross proceeds of $289 million.

Increasingly favourable market conditions and a solid operating performance also contributed to the Corporation's financial health. The result was a year-end 1994 debt ratio of 46:54, versus 52:48 a year earlier, and year-end available liquidity in excess of $500 million.

Net cash provided by (used for) operating activities
(in millions of dollars)



Improved Operational Performance

A number of Domtar facilities set production records during the year. Foremost among them was the Communication Papers division's world-scale fine paper complex in Windsor, Québec. The Lebel-sur-Quévillon pulp mill also achieved record levels of output as well as an 8% reduction in production costs relative to 1993 levels. The Packaging division established production records at its Red Rock, Ontario, mill, while the Decorative Panels division's Huntsville, Ontario, plant also achieved unsurpassed production levels. Resumption of operations at the Matagami, Québec, sawmill resulted in the production of an additional 61 million board feet of lumber. The Corporation's sawmills, including the Matagami facility, increased their overall production by 22% thanks to effective optimization programs.

Increased product demand also led to the reopening of a gypsum wallboard plant in Sweetwater, Texas.

Furthermore, Domtar has seen its production and sale of specialty fine paper grades increase by 26% in 1994. The majority of these products were shipped to the U.S. market.

In keeping with the Corporation's commitment to quality control and continued improvement, a number of Domtar facilities have qualified (or will shortly qualify) under ISO 9000 standards of quality assurance.

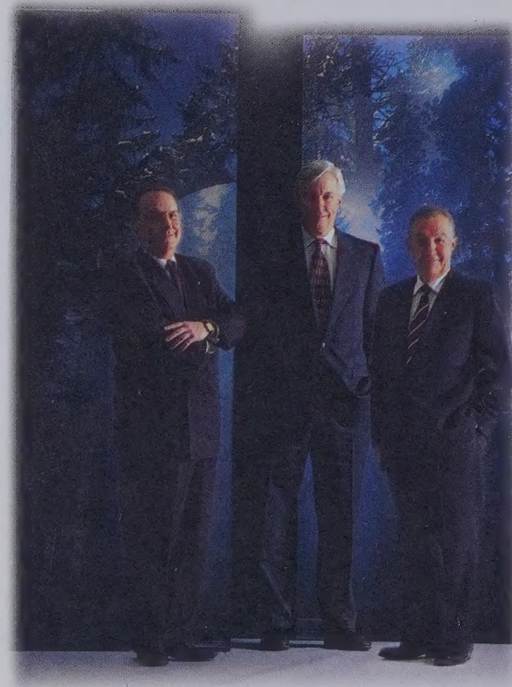
Improving Markets

Market conditions for Domtar's products improved significantly during the second half of 1994. Selling prices, which in 1993 had fallen to historically low levels for some products, began to recover with the strong upward momentum carrying over into 1995.

Improved demand for all communication paper grades prompted producers to implement five price increases between April and December of 1994. Consequently, prices climbed by 60% from their second quarter low to the end of the year. Additional increases effective in January 1995 were implemented, and announcements of further increases are anticipated in the spring of 1995.

Favourable pulp market conditions in 1994 enabled producers to increase prices by 60% from year-end 1993 to the end of 1994. These conditions are still prevalent and have prompted producers to implement a further increase in January 1995 and to announce an additional increase for March of 1995.

Gilles Blondeau
Chairman of the Board
John D. Thompson
Vice-Chairman of the Board
J.V. Raymond Cyr
Vice-Chairman of the Board



Three linerboard price increases were implemented during 1994, pushing the price to a record high by the end of the fourth quarter of 1994. A further increase was implemented in January 1995.

Heightened consumer confidence and increased employment fuelled U.S. residential construction, while repair and renovation markets remained strong. This allowed for gypsum wallboard prices to increase by 20% during 1994. Prices for melamine decorative panels also climbed. Despite rising interest rates, further increases in the prices of these products were announced subsequent to year-end. Lumber prices set a new record, fuelled by high demand and supply restrictions.

Changes to the Board of Directors

During the year, Messrs. J.A. Gordon Bell, Jacques A. Drouin and Claude Hélie left the Board of Directors. Messrs. Paul-Henri Couture, Stephen C. Larson and Michel P. Salbaing were appointed to the Board to fill these vacancies.

Mr. Gilles Blondeau was appointed Chairman of the Board, and Messrs. J.V. Raymond Cyr and John D. Thompson were appointed Vice-Chairmen of the Board.

Mr. Robert Després, O.C., who has served on the Board since 1978, will not stand for re-election at the annual shareholders meeting, having attained the age limit set for Directors. His wise counsel throughout the years and his significant contribution to the deliberations of the Board will be missed.

We are indebted to all our Board members, past and present. The results of this past year are a direct result of their guidance and leadership.

Outlook for 1995

The prospects for improved performance by the Corporation in 1995 are excellent. Our confidence is based on the unique convergence of four factors:

1) Demand for most of Domtar's major product lines will remain strong, allowing full-capacity operation of its facilities.

2) High industry-wide operating rates will drive significant year-over-year price increases, some to record levels.

3) The full impact of Domtar's recent initiatives to reduce costs and improve productivity will be realized.

4) The likelihood of a low Canadian dollar will contribute to the Corporation's profitability of sales to the U.S. market.

The projected results generated under this scenario will facilitate continued improvement in Domtar's liquidity position, completion of major environmental projects, initiation of high-return capital projects deferred during the recent recession and selective strategic undertakings.

Led by a strong management team and a skilled and motivated employee base, we look forward to 1995. We proceed with the knowledge that it is the talent and initiative of Domtar's employees upon which the future of the company depends. The degree to which we strengthen this partnership will also assure our continued prosperity.

Gilles Blondeau
Chairman of the Board

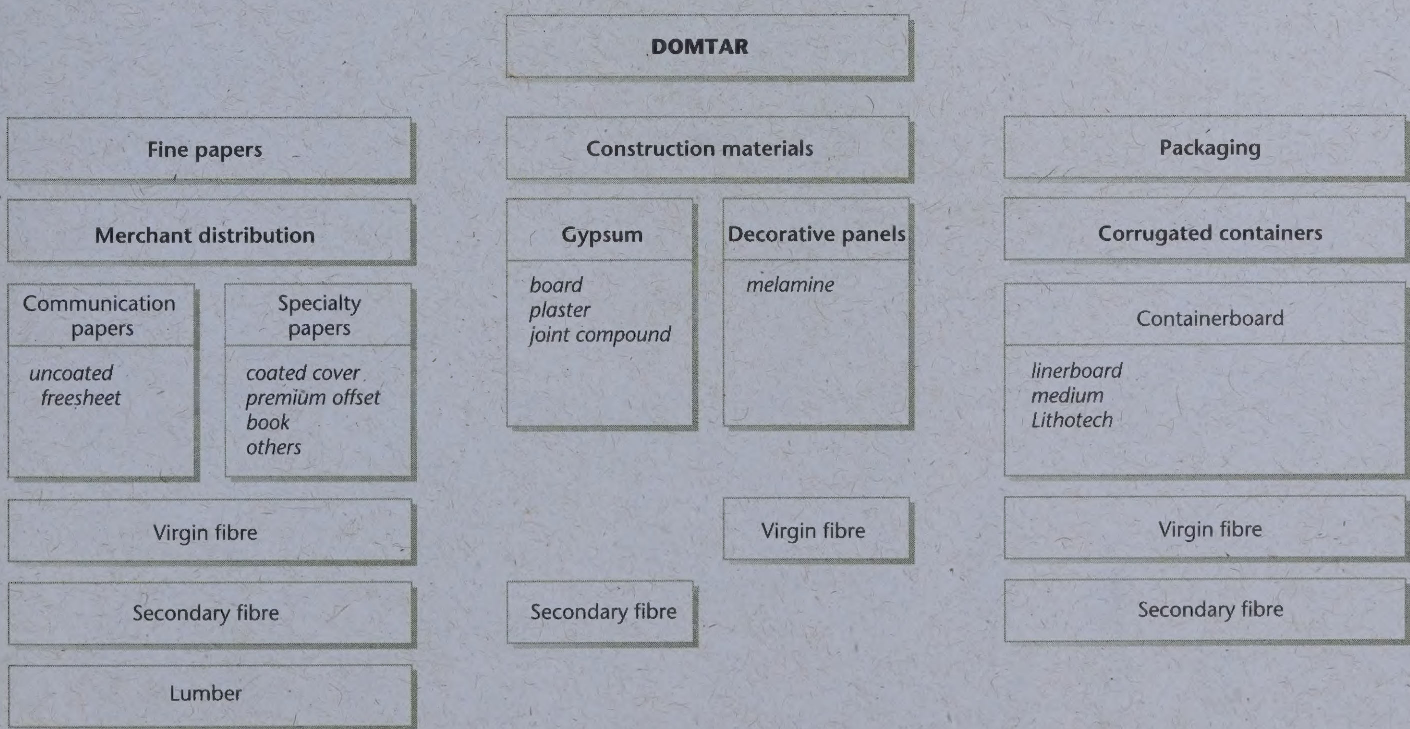
Stephen C. Larson
President and Chief Operating Officer

J.V. Raymond Cyr
Vice-Chairman of the Board

John D. Thompson
Vice-Chairman of the Board

Domtar is a manufacturer and marketer of pulp and paper products, packaging and construction materials products with consolidated sales in 1994 of $2,141 million. Domtar's operations are predominantly North American, with sales in the United States from operations in both Canada and the United States representing approximately 52% of its revenues in 1994. Domtar has approximately 9,000 employees and operates 57 plants in Canada and the United States, complemented by a network of warehouses and sales offices strategically located across Canada and in certain key areas of the United States.

While Domtar is organized with 8 business units (individual descriptions follow), from a "systems" viewpoint of fibre manufacturing, conversion and distribution, the Corporation is focused on only three areas: fine papers, construction materials and packaging.



Record production levels, fluctuating market conditions, continued cost control and improved service to customers characterized a year of achievement in the Communication Papers division.

Once again, we increased our productivity at the Windsor, Québec, mill, establishing new daily and yearly production records both at the pulp mill and on the paper machines. Paper shipments also reached new highs, exceeding 1993 levels by 7.5%. Approximately 75% of the facility's fine paper production was shipped to the U.S. market in 1994. Productivity gains, combined with key modifications to processes and raw material utilization, successfully kept production costs among the lowest in the industry.

Our improved performance was partially offset by difficult market conditions in the first half of the year. Prices dropped to record lows during the second quarter but, by year-end, had surpassed the 1993 peak level. This recovery enabled us to regain significant ground and we expect prices to improve further in 1995.

Domtar has signed a five-year agreement with the *Fédération des producteurs de bois du Québec* to supply a substantial portion of the division's wood fibre requirements.

The quality of our products continued to meet world standards. Progress made during the year resulted in Xerox qualification in early 1995, while ISO 9002 certification is expected to follow.

A re-energized sales and marketing team was responsible for substantial improvements in service levels and customer satisfaction, as confirmed by an independent customer benchmarking study. In addition, the group's introduction of grade mix and distribution changes helped improve our profitability.

In information systems, we continued to focus our resources on improving our customer service. New system capabilities placed more reliable information in the hands of sales and marketing representatives and work continued toward a new order-planning system which will form the basis for future gains in customer service.

The year was also marked by progress in the area of labour relations. Following our six-year agreement signed in 1993, long-term collective agreements were signed with the wood and office unions during the year, adding further long-term stability to our operations.

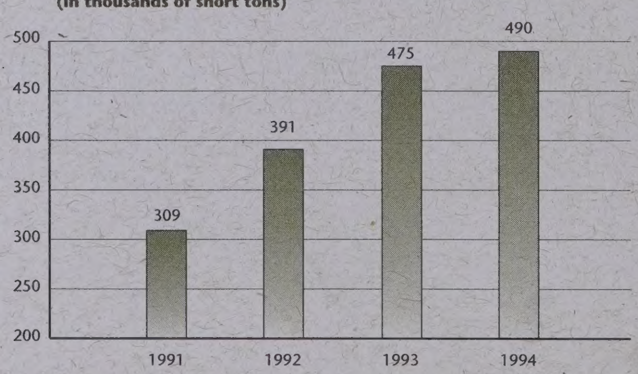
Key capital projects during the year were aimed at keeping Domtar at the forefront of technology while complying with environmental guidelines.

We committed $31 million to construct an additional ultramodern sheeting facility at Windsor, scheduled to be operational by the third quarter of 1995. Modifications to the Windsor bleaching facility in 1994 have increased pulp production, reduced the use of chemicals and allowed the mill to become elemental chlorine-free. At the same time, in compliance with emission standards, a new precipitator began operation. Plans for improvements to our effluent-treatment facility were also approved during the year.

In light of Hydro-Québec's proposal to delay large cogeneration projects, we have scaled back our plans and have been pursuing alternative energy sources. One promising option, a 25-megawatt biomass project, would provide comparable cost reductions, only much sooner.

As a result of these capital projects, human resource initiatives and process improvements, we are well positioned to take full advantage of the strengthening North American communication papers market in 1995.

Production volumes
Communication papers - Windsor Mill (Uncoated Freesheet)
(in thousands of short tons)



Communication Papers

major product lines
uncoated freesheet papers in various grades:

photocopy paper
bond paper for forms and computer printouts
envelope paper
offset printing paper

operating location
Windsor, Québec

annual capacity
500,000 tons

Economic
Renewal
Award

The year was characterized by a series of strategic initiatives designed to strengthen the position of the Specialty Fine Papers division in a competitive market.

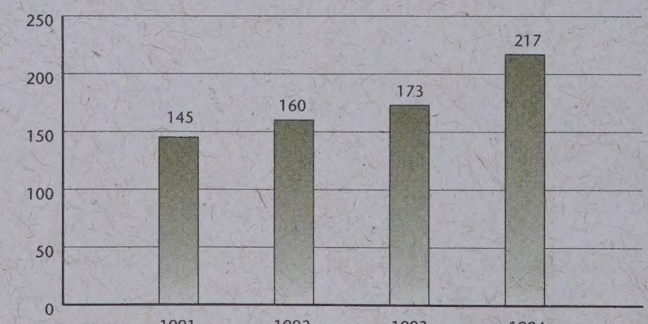
We reached a major milestone this year with the opening of the recycled bleached corrugated facility in Cornwall, Ontario, the first mill in the world capable of producing strong, white recycled pulp from old corrugated containers. In addition to enabling us to meet competitive demand for a recycled component in our fine papers product lines, the new facility will ensure numerous other environmental and cost reduction benefits.

In specialty papers, U.S. sales, which account for 46% of shipments, increased 20% over the previous year, buoyed by a strong economy and lower Canadian dollar.

Sales volumes of security papers doubled over 1993 levels due to the initial penetration of selected foreign markets. In order to speed Domtar's entry into the fast-growing markets of the Pacific Rim, a new sales office was established in Malaysia in mid-1994.

Our focus on boosting the production of specialty products resulted in a 26% increase in shipments over 1993, with the production of our most profitable line, Cornwall Coated Cover, up by 27% in 1994. The enduring popularity of this product was further substantiated by a blind print comparison in which printers ranked 30 different products. Cornwall Coated Cover swept the top three positions. The Cornwall mill was named one of 19 recipients of the Ontario Premier's Council Economic Renewal Award for 1994.

Production volumes
Specialty paper grades
(excluding communication grades production)
(in thousands of short tons)



Several capital projects undertaken during the year focused on environmental protection and compliance. Construction of a secondary effluent treatment plant in the Cornwall complex - a $61-million investment - is proceeding ahead of schedule, with start-up slated for the second quarter of 1995. At the mill in Beauharnois, Québec, construction began on a $6-million secondary effluent treatment plant.

Approved by the Ontario Ministry of Environment, Domtar's lime and soil conditioner pilot project, initiated in 1994, enabled us to use mill by-products to enhance the properties of agricultural soil and divert from landfill 10,000 cubic metres of lime by-product. This lime by-product will be offered for sale in 1995.

Constructive union-management relations are vital to our division's efforts to increase the pace of product development and of market penetration. In 1994, we signed at our Beauharnois mill a collective agreement with employees incorporating a no-strike/no-lock-out provision for a period of six years.

The St. Catharines, Ontario, mill achieved ISO 9002 certification in 1994, while the other specialty mills continued to pursue accreditation, reflecting Domtar's commitment to quality.

Our ongoing commitment to process re-engineering in all areas of operation is expected to pay even greater dividends in 1995 and beyond. The anticipated cost reductions and productivity and service improvements will better position the Specialty Fine Papers division to compete favourably in a variety of market conditions.

Specialty Fine Papers

major product lines
premium stationary
premium offset text and cover
bristol, tags, cover and boards
Cornwall coated cover
security paper
book paper
packaging grades
file folder
diazo

operating location
Beauharnois, Québec
Cornwall, Ontario
St. Catharines, Ontario

annual capacity
16,000 tons
250,000 tons
60,000 tons

The Domtar Merchants division had a banner year in 1994. We recorded our highest operating profit in over five years. Targeted marketing efforts, higher selling prices and tighter cost control, coupled with continuous improvement initiatives are all factors which contributed to the strong performance. Sales increased by 16% over the previous year.

The impact of targeted marketing programs introduced in each of our three product groups during the year was strongly felt. In just one example, La Maison du Papier/The Paper House outlets in Québec and in the Atlantic Provinces embarked on an aggressive market awareness program entitled "Your Business Partner". The program positions Domtar Merchants as a strategic partner interested in building win-win relationships with its customers. Marketing efforts were supported by our drive to improve customer service during the year. This drive resulted in, among other things, shorter telephone-response times, a marked increase in the incidence of error-free orders and the quicker resolution of complaints.

Cost control remained a priority throughout the division with control being expanded into non-traditional areas. An activity-based management project, initiated at La Maison du Papier in Montréal, is yielding useful insights on the cost of supplementary activities undertaken when interacting with customers.

Suppliers remain a key component in the success of the distribution business. While we maintain strong relationships with Domtar manufacturing divisions, other mills also play a pivotal role. Supplier Appreciation Day is but one example of our continuing effort to foster closer ties with our principal suppliers.

A new five-year collective agreement signed with our warehouse and delivery personnel in Ontario symbolized a year of productive employee relations. We also reconfirmed our commitment to training and development with the introduction of several new training programs, including employee participation in Domtar's organizational strategy and leadership programs, sales training provided by the National Association of Printers and Lithographers plus a wide variety of internal training programs.

Domtar Merchants

Domtar operates a network of fine paper warehouses under La Maison du Papier/ The Paper House banner in Québec, and Atlantic Canada and Buntin Reid in Ontario.

operating locations

La Maison du papier / The Paper House

St. John's, Newfoundland
Dartmouth, Nova Scotia
Saint John, New Brunswick
Montréal, Québec

Buntin Reid

Ottawa, Ontario
Mississauga, Ontario
London, Ontario

Record production volume, a significant upward swing in pulp prices, the development of a $245-million modernization program and the progression towards a new business entity (with the company name, ***Norkraft Quévillon Inc.****) combined to make 1994 an outstanding year for the Lebel-sur-Quévillon, Québec, mill.*

The global economic recovery put pressure on the supply of market pulp, pushing prices up more than 60% from 1993 year-end levels. The simultaneous drop in world inventories of northern softwood pulp, coupled with key productivity improvements, prompted the mill's highest sales volume since it opened in 1967. Furthermore, cost-control efforts resulted in a $53/tonne decline in production costs over 1993.

The sales strategy was aimed at maximizing sales in Canada and the U.S., while meeting customer demand for chlorine-free pulp. Production capacity was increased as a means of improving Domtar's global competitive position.

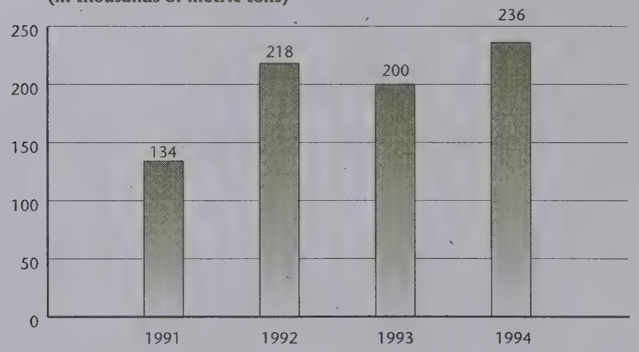
Capital projects during the year were geared to meeting forthcoming environmental regulations and becoming more cost-competitive. As part of the $245-million modernization program, construction of an activated-sludge secondary treatment plant began in July 1994 and is scheduled to be completed in September 1995 before new regulations come into effect. In addition, the construction of a new black-liquor recovery boiler designed to curb atmospheric emissions, plans for a cogeneration project and the upgrades of equipment were announced.

Efforts to streamline the organizational structure and work processes made significant progress during the year. The restructuring has created more direct links between management, employees and our customers. It has also resulted in a marked improvement in the work climate, reflecting employees' commitment to improving the competitive position of the mill.

The ISO 9002 program initiated in 1993 continued in 1994 with the implementation of statistical process control. The goal is to achieve full accreditation by late 1995.

There is a definite air of optimism at the Quévillon mill and a prevailing eagerness to move ahead with meeting the challenges of 1995.

Production volumes
Market Pulp
(in thousands of metric tons)



Kraft Pulp

major product lines
market pulp
(northern softwood kraft pulp)

bleached
semi-bleached
unbleached

operating location
Lebel-sur-Quévillon, Québec

annual capacity
260,000 tonnes

Domtar's lumber operations surpassed an exceptional 1993 performance and delivered even more spectacular results in 1994. High prices, a favourable U.S. dollar exchange rate, increased sales volumes and the resumption of production at the Matagami, Québec, sawmill were the main factors contributing to our success during the year.

Lumber prices remained consistently high throughout most of 1994 after reaching record levels in the first quarter. In response to strong marketplace demand, lumber production was stepped up by 25% over 1993. The resumption of operations at the Matagami mill in April played a key role in the overall production increase. Additional employees were brought on board at all the mills and we ran wood-drying facilities at full capacity. With 80% of sales going to the U.S., we were able to take full advantage of the upswing in the U.S. economy.

A number of value-added projects were initiated in 1994. For example, the installation of a new kiln in Val d'Or, Québec, is permitting the mill to more cost-effectively dry its own wood as well as wood from the neighbouring Malartic, Québec, mill, while enabling it to include dried lumber among its U.S. product offerings. In late 1994, a project to replace the 20-year-old planing mill at Lebel-sur-Quévillon, Québec, got underway. The new mill will result in increased productivity, improved efficiency of the wood-fibre conversion process and reduced operating costs.

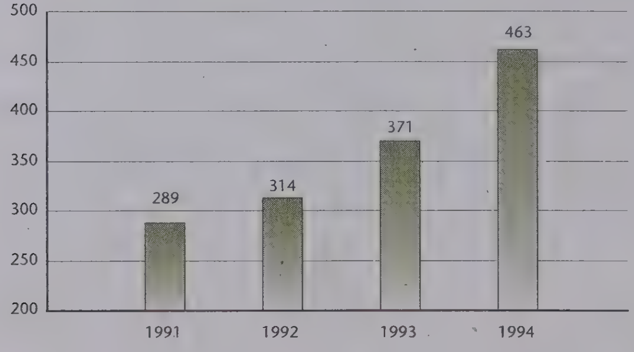
To ensure continuity of wood fibre supplies for the Val d'Or and Malartic mills, an agreement with the Québec government was reached. The agreement permits wood fibre to be transferred from any Domtar harvesting area in the Abitibi region to the most appropriate mill for processing.

Meeting customer specifications in terms of product quality and delivery schedules remained a priority for all employees. Frequent customer surveys monitored customer satisfaction throughout the year and various measures were adopted to sustain the on-going quality of Domtar products. Overall improved responsiveness is reflected in initiatives such as a new electronic data-interchange system which allows the division to transfer key information to customers and suppliers, simply and instantly.

In 1994, most of the division's collective agreements were renewed for five - to six-year periods, thereby providing a stable labour relations environment.

High prices for wood fibre are projected in the coming years reflecting the growing scarcity of this raw material. Since our sawmills enjoy among the lowest wood-fibre-supply costs in North America, they are well positioned to continue taking advantage of favourable market conditions.

Production volumes
Lumber
(In millions of board feet)



Lumber and Forest Products

major product lines
lumber

kiln dried dimension, studs and industrial lumber

roughtsawn lumber for re-manufacturing

operating locations

Val-d'Or, Québec
Malartic, Québec
Matagami, Québec
Lebel-sur-Quévillon, Québec
White River, Ontario

annual capacity
510 million board feet

Stronger worldwide demand and record pricing levels set the stage for a significant recovery in 1994 for Domtar's Packaging division. Our ability to take advantage of these favourable market conditions was made possible, in large measure, by our employees' commitment to improving the productivity of operations.

In high-growth specialty markets, our graphic litho laminate packaging business, Lithotech, capitalized on the growing demand for high-end corrugated packaging products which is outpacing the industry average.

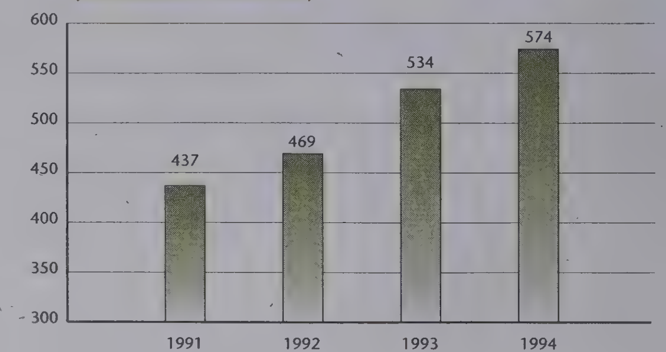
As part of our effort to comply with federal environmental regulations, two major capital projects got underway during the year. Construction began on a $25-million wastewater treatment project at our Red Rock, Ontario, facility, slated for completion in October 1995. An $8-million investment at our Trenton, Ontario, mill will result in the complete elimination of contaminated water discharges.

In addition to our ongoing efforts to promote continuous improvement, five of our corrugated plants were registered for ISO 9001 in 1994, with the Calgary, Alberta, plant being first in Canada to achieve this hard won accreditation.

Through the ambitious efforts of all employees, the St. Mary's, Ontario, corrugated plant was awarded the "Superior" rating of cleanliness, sanitation and housekeeping by the American Institute of Baking.

A number of landmark collective agreements signed during the year marked a new era of co-operation between the company and its employees. This had the effect of improving morale and resulted in several advances in operational efficiency. For example, at our Red Rock mill, a jointly developed strategy to ensure the mill's long-term viability and continuity of supply for our customers led to an innovative labour agreement which paved the way for improved productivity and lower unit costs. Domtar also introduced the incentive of productivity gainsharing and the formal involvement of employees in work processes. They are now working successfully within a flatter organization and assuming greater responsibility for the flow of work through the plant.

Production volumes
Containerboard
(in thousands of metric tons)



Packaging

major product lines
containerboard
corrugated containers
wastepaper

operating locations
Trenton, Ontario
Mississauga, Ontario
Red Rock, Ontario
Moncton, New Brunswick
Québec City, Québec
Montréal, Québec
Peterborough, Ontario
Toronto, Ontario
Barrie, Ontario
St.Mary's, Ontario
Leaside, Ontario
Etobicoke, Ontario
Winnipeg, Manitoba
Calgary, Alberta
Richmond, British Columbia
Watertown, New York
Montréal, Québec
Toronto, Ontario
Buffalo, New York

annual capacity
containerboard
160,000 tonnes (corrugated medium)
120,000 tonnes (recycled linerboard)
320,000 tonnes (linerboard)

corrugated containers
570 million square meters, double-faced equivalent

wastepaper
400,000 tonnes of recycled fibre, including old corrugated containers and office wastepaper

Following a difficult year in 1993, the Gypsum division's operating profit increased sharply this year. The improvement was largely due to stronger demand and higher prices for wallboard.

Housing starts rose by 10.4% overall, buoyed by an 11.9% increase in the United States, with starts in Canada down 1.8%. The continuing growth in repair and remodeling activity, coupled with a modest increase in non-residential construction, further fueled demand for our products.

The strong demand, in turn, prompted higher prices and greater margins. Average wallboard prices were up by 20% in Canada and 15% in the U.S.

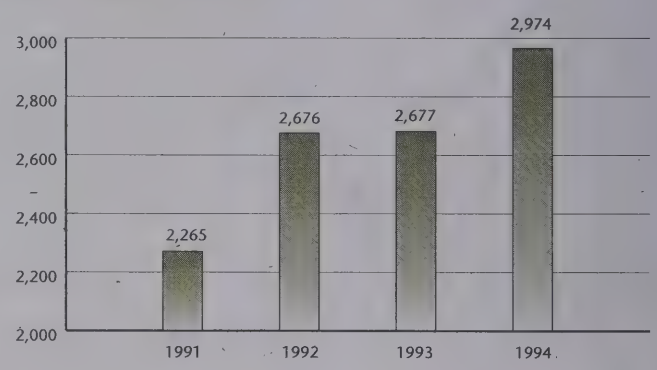
The Sweetwater, Texas, plant, re-opened in September and will increase production to three shifts by February 1995 to take advantage of the strong economic recovery in the south central U.S. market.

In one of many efforts to increase our cost efficiency, we sold our Newfoundland gypsum mine and negotiated a long-term contract to purchase lower-cost rock from a third party to supply our Newington, New Hampshire, and Camden, New Jersey, plants.

Several key capital projects were begun during the year. The expansion of our Newington wallboard plant, slated for completion in the third quarter of 1995, will increase our production capacity at very low cost, thereby allowing us to maintain our market share in the profitable wallboard sector. We have also taken steps to increase the use of recycled wallboard. Investments have been made or are planned at Caledonia, Ontario, Surrey, British Columbia, and Edmonton, Alberta, for waste recycling. Efforts to increase the use of recycled board are on-going at other plants as well.

With projected higher volumes and prices in 1995, anticipated further improvements in operating efficiencies and a full year's utilization of our Sweetwater plant, the Gypsum Products division has reason to be optimistic about the coming year.

Production volumes
Gypsum board
(in millions of square feet)



Gypsum Products

major product lines
gypsum board
gypsum paper
gypsum plaster
joint compound

operating locations

Caledonia, Ontario
Winnipeg, Manitoba
Edmonton, Alberta
Surrey, British Columbia
Newington, New Hampshire
Camden, New Jersey
Savannah, Georgia
Grand Rapids, Michigan
Sweetwater, Texas
Florence, Colorado
Tacoma, Washington
Long Beach, California
Antioch, California
San Leandro, California
Windsor, Nova Scotia
Longueuil, Québec
Fort Lauderdale, Florida
Orlando, Florida

annual capacity
4,0 billion square feet
55,000 tons
20,000 tons
70,000 tons

Building on our success of 1993, the Decorative Panels division recorded a sales increase of 31% over the previous year. While this stellar performance was rooted in steadily growing demand in the marketplace, our effective marketing strategies and our focus on production efficiency also contributed to the gain, allowing us to maintain our North American leadership position.

The effects of the general economic recovery translated into increased activity in our traditional market sectors — repair and remodelling, kitchen and bathroom cabinets, residential furniture, office furniture and fixtures.

The impact of a favourable market was further augmented by the growth in demand for thermally fused melamine. Overall melamine shipments were up 18% from 1993.

Increased customer acceptance is rooted in two factors: the rising costs and restricted availability of competing surface materials (wood, stone or metal); and the simultaneous rapid improvement in appearance, performance and availability of products.

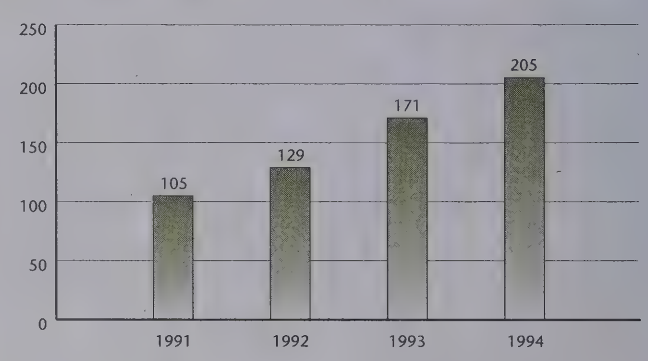
As a division, we were well positioned to capitalize on the shift in demand. Our strong promotional efforts among major office furniture manufacturers broadened our market for melamine. As well, our newly developed proprietary resin formulation, which permits increased opacity of our white grades, served as a competitive edge and enabled us to improve our cost-competitiveness.

The Corporation has also introduced the PANOLAM brand to create a quality label known worldwide.

Price leadership by Domtar combined with higher prices for particleboard (the main substrate used in melamine) resulted in a 19% price increase over the previous year.

Our cost-control efforts centered on such initiatives as reducing paper basis weight through lower resin costs. We also focused on achieving efficiency gains through process refinement. For example, in our Huntsville, Ontario, operation, these efforts resulted in improved quality, reduced down-time on our melamine presses and increased average operating speed on our particleboard presses. These improvements led Huntsville to establish a new production record in the third quarter of 1994.

Production volumes
Melamine panels
(in millions of square feet)



Decorative Panels

major product lines

thermally-fused decorative melamine panels

operating locations

Huntsville, Ontario
Norcross, Georgia
Albany, Oregon

annual capacity

240 million square feet

In recent years, Domtar has signed long-term collective agreements that have produced stable, positive environments in the Corporation's mills. By no means viewed as a buzzword or on-off solution, the partnership forged with employees has resulted in appreciable competitive advantages in terms of operational efficiencies and productivity.

Domtar's turnaround led the Corporation to develop an organizational strategy designed to make it a leading supplier in the prevailing business environment of market globalization, intense competition and capital scarcity.

Following the move to decentralize responsibilities and decision-making in favour of more autonomous business units, the phase initiated by Domtar in 1994 confirmed senior management's desire to flatten the organizational structure and create multidisciplinary work teams to generate added value through processes focused on satisfying customer needs, Domtar's driving force.

In addition to encouraging improved communication, the organizational strategy promotes operating and management practices that support human resources development and an efficient response to rapidly changing markets.

In 1994, employees played a major role in the re-engineering process undertaken by the Specialty Fine Papers division and the creation of autonomous business units at the Windsor, Québec, and Cornwall, Ontario, mills. Employees were also instrumental in designing the modernization program at the Lebel-sur-Quévillon, Québec, kraft pulp mill.

Since continuing education is key to implementing the organizational strategy, in addition to being one of the most important factors in effecting change, Domtar signed agreements with the University of Toronto in Ontario and the University of Sherbrooke in Québec to provide Domtar personnel with an opportunity to upgrade their skills and enhance their expertise. So far, 320 employees from various Domtar divisions have attended eight sessions of an initial course on organizational strategy and leadership.

In addition to enhancing Domtar's overall performance, the organizational strategy confirms the Corporation's determination to make its human resources the cornerstone of its growth and development.

Domtar is planning on making changes consistent with the following strategic directions:

(1) focusing on the quality of products and services and being responsive to customer expectations;

(2) fostering a working environment that is finely tuned to market developments and where employee creativeness, innovation and initiative are encouraged;

(3) empowering and motivating employees, instilling in them a mentality geared to continuing improvement, so as to help maximize earnings and shareholders' return;

(4) developing comparative evaluation methods that make it possible to set operating and financial objectives and to analyse performance in light of the industry's top performers.

Domtar's woodlands operations extend over approximately 33,000 square kilometres (km²) of public and private forest in Québec and 22,000 km² in Ontario, which produce, respectively, 2.5 and 1.9 million cubic metres of wood annually for the Corporation's five sawmills and four pulp and paper mills. Some 600 km² of private forest land in the Northeastern United States produce an additional 35,000 cubic metres of wood. In total, Domtar has 1 million acres of freehold timber land and 12.7 million acres of cutting rights on Crown lands.

Forests are a valuable renewable resource and one of the keys to both sustainable development and competitive raw material costs. Domtar is therefore committed to managing its woodlands according to two fundamental principles:

- sustained yield, which ensures that supplies for its locations are constant in quality and quantity;
- integrated resources management to protect delicate ecosystems, including the forest environment (water, soil and landscape), and wildlife (deer, caribou, moose, fish and other species).

In 1994, to achieve its sustained yield objective, Domtar planted six million seedlings in Québec, carried out pre-commercial thinning on 2,700 hectares of young forest and prepared 2,300 hectares of land for future reforestation.

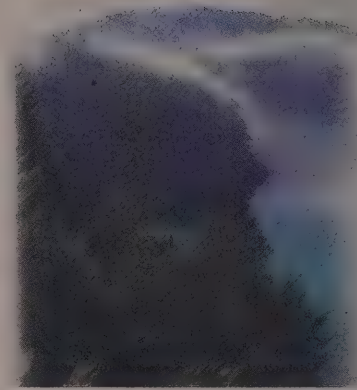
To protect wildlife and water ecosystems on its private lands, Domtar maintains a guide to woodlands operations. Regular training sessions on selection techniques have been organized for all forestry workers, with the result that the use of these harvesting techniques has increased from 12% to 60% in three years. Forestry research focused on the development of new harvesting techniques that help to protect and renew the forest, the creation of optimal wood-fibre recovery technologies and the application of geographic-information-system technologies has been conducted through agreements with, among others, the Canadian Forest Service and the Forest Engineering Research Institute of Canada.

A second five-year management plan (1994-1999) for three white-tailed deer yards covering 82 km² was developed, after it became clear that the white-tailed deer population had in fact doubled as a result of the first five-year plan.

In addition to developing guidelines for managing the Corporation's activities in accordance with the Ontario Forest Industries Association's Code of Forest Practices, Domtar held training sessions for employees from the division.

As well, Domtar inaugurated the McKinnon Forestry Interpretative Centre in Apple Hill, Ontario. This heritage outdoor education facility demonstrates the industry's role in a working forest environment. With financial assistance from its partner, the Eastern Ontario Model Forest, a federal Green Plan initiative, Domtar built a log conference building that can accommodate groups year-round. Work is currently under way to transform the property into a museum highlighting forestry operations as well as the last local log drive on the Raisin River.

Domtar continues to be a leader when it comes to maintaining the biodiversity and viability of forest resources, while safeguarding the equilibrium of the ecosystems.



Being a responsible corporate citizen, Domtar has for several years now devoted a considerable proportion of its financial and human resources to improving the environmental performance of its operations.

In response to new federal and provincial effluent and atmospheric emission standards, which affect a number of Domtar mills in Québec and Ontario, Domtar announced several major investments in 1994. Water treatment projects, totalling more than $150 million, are currently being completed at the Beauharnois, Québec, security paper mill, the Lebel-sur-Quévillon kraft pulp mill, the Windsor, Québec, communication paper mill, the Cornwall, Ontario, fine paper mill, and the Trenton and Red Rock, Ontario, containerboard mills.

The innovative sequential biological treatment technology installed at Domtar's Beauharnois facility, a technology that brings biological oxygen demand down well below the federal standard and provides ongoing purification of mill effluent, marked a first for the Canadian pulp and paper industry. The upgrading of the secondary effluent treatment system at our Windsor mill by adding flotation cells represents another technological first.

In addition to building a secondary treatment plant at the Red Rock containerboard mill, Domtar announced a modernization program for the Lebel-sur-Quévillon mill, which includes the installation of a new effluent treatment system and a new recovery boiler, as well as the construction of a cogeneration plant. This program, which represents an investment of $245 million, will significantly improve atmospheric emissions. A new "process close-up" approach to effluent treatment will also be implemented at the Trenton, Ontario, containerboard mill.

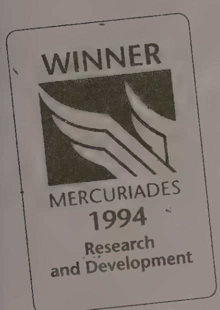
On the recycling front, Domtar, the largest consumer of waste papers in Canada, has continued to promote its waste-management programs designed for corporations and multi-tenant office towers. The start-up of the recycled bleached corrugated (RBC) process at Domtar's Cornwall, Ontario, fine paper mill marks yet another world first for the Corporation. Domtar's recycling division collected, processed and brokered over 400,000 tonnes of waste paper (primarily old corrugated containers) in 1994.

While closely monitoring the application of its environmental policy and adopting measures to improve related internal management systems (prevention of abnormal discharges, minimizing solid residues, impact studies, and so forth), Domtar has continued to be an active participant in a number of related pulp and paper industry committees and task forces. The Corporation has, for instance, developed an action plan under the Accelerated Reduction/ Elimination of Toxics (ARET) program, which promotes voluntary efforts to achieve specific environmental objectives in a timely and cost-effective manner.

Well aware of its environmental responsibilities, Domtar has invested large sums in upgrading its processes and facilities. Over the past 20 years, the Corporation's initiatives have reduced suspended matter by 88% and biological oxygen demand by 78% in the effluent discharged by its pulp and paper mills and packaging plants. Projects currently nearing completion will further reduce such discharges by late 1996.

As borne out by its actions in the past year, Domtar is an innovative company that has spared no effort to manage and preserve resources, protect the local environment of communities where it operates, improve citizens' quality of life and, most important, contribute to sustainable development.

Technological innovation is an essential component of Domtar's efforts to improve its productivity and competitiveness, and as such is key to Domtar's growth and development.



The Corporation has continued to give high priority to its research and development activities, with the result that Domtar divisions have launched a number of new products and significantly improved several others. In addition to enhancing the inherent advantages of the highly successful alkaline papermaking conversions, expertise acquired in this area should enable the Corporation to accelerate the launching of high value-added products. Through licensing arrangements, Domtar has also marketed a new environmentally friendly wood preservative called ACQ (Ammoniacal Copper Quat), as well as another product named MFP (monoflurophosphate) developed to better protect concrete against salt-induced degradation.

The start-up of the first commercial application of Domtar's patented recycling technology, which converts old corrugated containers into high-quality post-consumer pulp, not only highlighted the attractiveness of this technology, but also demonstrated the value of using a multidisciplinary team, set up at the Cornwall, Ontario, mill, to implement the project.

After conducting a number of studies, the Packaging division opted to implement a «process close-up» approach at its Trenton, Ontario, containerboard mill, rather than a conventional secondary effluent-treatment system.

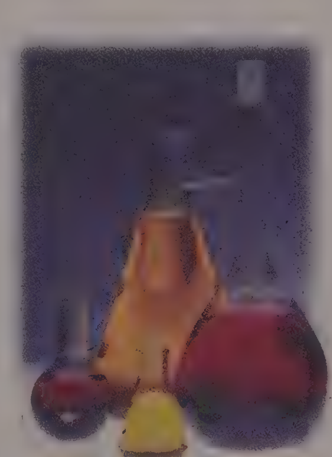
As well, Domtar is working closely with suppliers, universities and the Pulp and Paper Research Institute of Canada (PAPRICAN) to accelerate technological advances and help the industry meet its commitment to support sustainable development. To facilitate technology transfers and optimize industrial processes, higher priority was given to electronic technology development. After a full year of operations at the Windsor, Québec, communication paper mill, a training and trouble-shooting system has now started to create interactive «intelligent» modules.

The Corporation has forged closer relationships with a network of external resources to extend its research and development capacity. In 1994, research on topics of mutual interest was undertaken with seven universities and several new suppliers.

After rigorous auditing by the Standards Council of Canada, the analytical science laboratory at Domtar's Senneville, Québec, Research Center (now called the **Innovation Center**) was the first lab in the pulp and paper industry to obtain ISO/IEC Guide 25 certification, confirming its status as an accredited testing laboratory.

As well, Domtar has set up a team of seasoned managers, which will, in the manner of a risk capital firm, identify new business opportunities for the Corporation.

Owing to the dynamic and professional thrust of its research and development activities, Domtar is increasingly being perceived by outside observers as an organization that has once again become a leading innovator within the industry. Domtar was in fact honoured to receive the Québec Chamber of Commerce's prestigious Mercuriades award for what the jury described as the intensity, quality and success of its research and development programs.



BOARD OF DIRECTORS

(as at February 28, 1995)

Gilles Blondeau 1, 2, 3, 4, 5
Montréal
Chairman of the Board,
Domtar Inc.
Chairman of the Board and
Chief Executive Officer,
Groupe Optimum Inc.

J.V. Raymond Cyr 1,3
Montréal
Vice-Chairman of the Board,
Domtar Inc.
Chairman of the Board,
Bell Canada

John D. Thompson 1,2,4
Montréal
Vice-Chairman of the Board,
Domtar Inc.
Deputy Chairman of the Board,
Montreal Trustco Inc.

Paul-Henri Couture 6
Montréal
Director, Private Investments,
Industrial and Service Companies,
Caisse de dépôt et placement du Québec

Pierre Desjardins
Montréal
Company Director

Robert Després, O.C. 4
Québec
President,
Placements DMR Inc.

Claude Fontaine, Q.C.
Montréal
Partner in the law firm Ogilvy Renault

Marc G. Fortier 1,2,5
Montréal
Chairman of the Board,
President and Chief Executive Officer,
Société générale de financement du Québec

Paul Gobeil
Montréal
Vice-Chairman of the Board,
Métro-Richelieu Inc.

Claude R. Lamoureux 4,5
Toronto
President and Chief Executive Officer,
Ontario Teachers' Pension Plan Board

Pierre Lamy 1,2,3,5,6
Montréal
Economic and Financial Consultant

Stephen C. Larson 6
Montréal
President and Chief Operating Officer,
Domtar Inc.

Rémi Marcoux 5
Montréal
Chairman of the Board, President and
Chief Executive Officer,
G.T.C. Transcontinental Group Ltd.

James A. Robb, Q.C. 2,6
Montréal
Partner in the law firm Stikeman, Elliott

Michel P. Salbaing 3
Montréal
Vice-President and Chief Financial Officer
Société générale de financement du Québec

Edward J. Waters 4,5
New York
Consultant

Member of the...

1 Executive Committee
2 Executive Management and Compensation Committee
3 Audit Committee
4 Pension Fund Investment Committee
5 Nominating Committee
6 Environment and Health and Safety Committee

Gilles Blondeau
Chairman of the Board

J.V. Raymond Cyr
Vice-Chairman of the Board

John D. Thompson
Vice-Chairman of the Board

Stephen C. Larson
President and
Chief Operating Officer

Guy Boucher
Vice-President,
Environment

Douglas R. Daniels
Vice-President and
General Manager,
Specialty Fine Papers Division

Daniel Denault
Vice-President and Controller

Robert J. Eamer
Senior Vice-President -
Technological Development

Pierre Fitzgibbon
Senior Vice-President and
Chief Financial Officer

Stanley Jacobson
Vice-President and
General Manager,
Corrugated Containers

George Kobrynsky
Vice-President and
General Manager,
Communication Papers Division

Barry Lynch
Vice-President and
General Manager,
Merchants Division

Gilles Pharand
Senior Vice-President-
Corporate Affairs,
General Counsel and Secretary

A. J. (Eddie) Ross
Vice-President and
General Manager,
Kraft Pulp and Forest Products
Division

Claude Saillant
Vice-President,
Strategic Profit Development

Kenneth Sims
Vice-President and
General Manager,
Gypsum Division

Larry T. Solari
President,
Construction Materials Group

Clyde Wetmore
Vice-President and
General Manager,
Security Papers

Donald J. Whittle
Vice-President and
General Manager,
Packaging Division

Pulp & Paper

Communication Papers
Canada
Montréal, Québec, tel.: (514) 848-6610
Toronto, Ontario, tel.: (905) 671-7262
United States
Shelton, Connecticut, tel.: (203) 925-2650
Rosemont, Illinois, tel.: (708) 698-9700
Covington, Kentucky / Ohio, tel.: (606) 292-2088
Baltimore, Maryland, tel.: (410) 832-7101
Conway, Massachusetts, tel.: (413) 369-0205
Philadelphia, Pennsylvania, tel.: (215) 854-6322

Specialty Fine Papers
Canada
Montréal, Québec, tel.: (514) 848-5400
Toronto, Ontario, tel.: (905) 671-7200
Ottawa, Ontario, tel.: (613) 830-2367
Vancouver, B.C., tel.: (604) 986-7177
United States
Shelton, Connecticut, tel.: (203) 925-2650
Chicago, Illinois, tel.: (708) 698-9700
Overseas
Montréal, Québec, tel.: (514) 848-6651

Domtar Merchants

The Paper House / La Maison du papier:
St. John's, Newfoundland, tel.: (709) 368-2108
Dartmouth, Nova Scotia, tel.: (902) 468-6323
Saint John, New Brunswick, tel.: (506) 633-0909
Saint-Laurent, Québec, tel.: (514) 331-8610

Buntin Reid Paper:
Mississauga, Ontario, tel.: (905) 670-1351
London, Ontario, tel.: (519) 659-8446
Ottawa, Ontario, tel.: (613) 731-8410

Kraft Pulp and Forest Products

Kraft Pulp:
Canada and overseas
Montréal, Québec, tel.: (514) 848-5540
United States
Newtown, Connecticut (serves the New England area), tel.: (203) 270-0779
Wausau, Wisconsin (serves the Midwest area), tel.: (715) 848-6099

Lumber:
Montréal, Québec, tel.: (514) 848-5133

Packaging

Containerboard:
Mississauga, Ontario, tel.: (905) 671-7200

Corrugated Containers:
Eastern Canada
Moncton, New Brunswick, tel.: (506) 853-8153
Québec City, Québec, tel.: (418) 683-2351
Montréal, Québec, tel.: (514) 529-3800
Ontario
Peterborough, Ontario, tel.: (705) 748-6881
Etobicoke, Ontario, tel.: (416) 255-8541
Scarborough, Ontario (Lithotech - High Graphics), tel.: (416) 412-3500
Barrie, Ontario (Jellco Packaging), tel.: (416) 362-5035 and (705) 737-0470
St. Mary's, Ontario, tel.: (519) 284-1840
Western Canada
Winnipeg, Manitoba, tel.: (204) 786-5761
Calgary, Alberta, tel.: (403) 531-3800
Richmond, B.C., tel.: (604) 273-7321

Construction Materials

Domtar Gypsum:
Canada
Québec
Longueuil, Québec, tel.: (514) 670-7750
Atlantic and Ontario
Windsor, Nova Scotia, tel.: (902) 798-2287
Caledonia, Ontario, tel.: (905) 765-1506
Prairies
Edmonton, Alberta, tel.: (403) 472-6732
Western Canada
Surrey, B.C., tel.: (604) 580-0620
United States
New England
Newington, New Hampshire, tel.: (603) 433-8000
Mid-Atlantic
Camden, New Jersey, tel.: (609) 966-7600
North Central
Grand Rapids, Michigan, tel.: (616) 453-9758
Southeast
Savannah, Georgia, tel.: (912) 233-4951
Pacific Northwest
Tacoma, Washington, tel.: (206) 627-2100
Northern California
Antioch, California, tel.: (510) 757-5400
Southern California
Long Beach, California, tel.: (310) 435-7711

Decorative Panels:
Canada and United States
North
Huntsville, Ontario, tel.: (705) 789-9683
South
Norcross, Georgia, tel.: (404) 368-2330
West
Albany, Oregon, tel.: (503) 928-1942

Annual Meeting
The Annual Meeting of Shareholders will be held at 10:30 a.m. on Thursday, April 20, 1995, in the Château Champlain Hotel, Montréal, Québec.

Annual Information Form
The Annual Information Form may be obtained by writing to the Secretary, Domtar Inc.

Transfer Agents and Registrars
For Common and Series "A" and "B" Preferred Shares and convertible debentures:
Montreal Trust Company - Halifax, N.S.; Saint John, N.B.; Montréal, Qué.; Toronto, Ont.; Winnipeg, Man.; Regina, Sask.; Calgary, Alta.; Vancouver, B.C.

For Common Shares only:
The Bank of New York, New York, N.Y.

U.S. Cash Dividend Plan
Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with Montreal Trust Company (514) 982-7555.

Stock Exchanges
Common and Series "A" and "B" Preferred Shares and convertible debentures are listed on the Montréal, Toronto and Vancouver stock exchanges.

The Common Shares are also listed on the New York Stock Exchange.
Ticker symbol: DTC

Investor Relations
Pierre Fitzgibbon
Senior Vice-President and
Chief Financial Officer
Telephone: (514) 848-5860

Shareholder Services
Shareholders having inquiries concerning their shares or debentures, or wishing to obtain information about the Corporation should contact:

Montreal Trust Company
Shareholder Services
1800 McGill College Avenue
Place Montreal Trust
6th Floor
Montréal, Québec
H3A 3K9
Telephone: (514) 982-7555

Head Office
395 de Maisonneuve Blvd. West
Montréal, Québec
H3A 1L6
Telephone: (514) 848-5400

P.O. Box 7210
Station "A"
Montréal, Québec
H3C 3M1

Complementary copies of Domtar Inc. Annual Report can be obtained from the Communications Department
(514) 848-5221.

Domtar publie son rapport annuel en français et en anglais.


Newfoundland
Quebec
P.E.I.
Nova Scotia
Plant
Sales office
Plant and Sales office

1994 ANNUAL REPORT

FINANCIAL REVIEW

DOMTAR

TABLE OF CONTENTS

OVERVIEW

Domtar's results for 1994 represent a significant turnaround compared to 1993. The Corporation is now profitable and well positioned to benefit from the current economic recovery following four years of rationalization, productivity improvements and substantial cost reductions in all businesses. Markets in which Domtar operates began to improve in 1994, particularly in the second half of the year. Selling prices, which had dropped to historically low levels in 1993 for many of Domtar's products, recovered in 1994 and in some businesses, reached historically high levels.

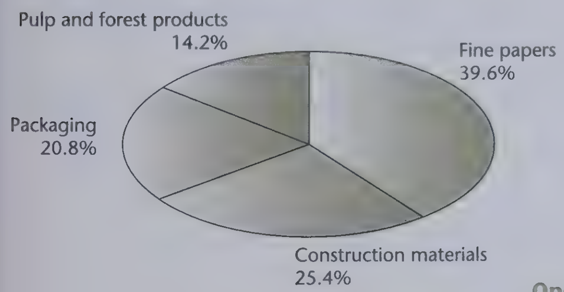
Consistent with the strategy of narrowing its focus and concentrating on businesses in which it enjoys a discernible competitive advantage, Domtar disposed of its Newsprint and Uncoated Groundwood Papers division and related lumber business to Alliance Forest Products Inc., through an initial public offering of securities (the "Alliance transaction") in 1994. It also exited the commercial roofing and insulation business. The combination of proceeds from divestitures, improved operating performance and better market conditions allowed Domtar to significantly improve its liquidity position.

Net earnings for the year ended December 31, 1994 amounted to $75 million ($0.56 net earnings per common share) an important turnaround in comparison to the 1993 net loss of $111 million ($0.90 net loss per common share). Net earnings in 1994 included a $33 million net gain on the divestiture of the businesses described in the previous paragraph, as well as after-tax earnings of $9 million from these discontinued operations.

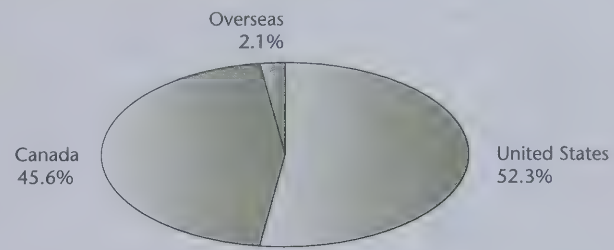
Earnings from continuing operations, net of financing expenses and income taxes, were $33 million ($0.23 earnings per common share) in 1994 compared to a loss of $125 million ($1.01 loss per common share) in 1993.

The Corporation is committed to continuously improve its operations while capitalizing on the benefits of improved market conditions and the favourable impact of the weaker Canadian dollar. To this effect, management and employees continue to identify and implement opportunities for cost reduction, productivity improvement and customer service enhancement.

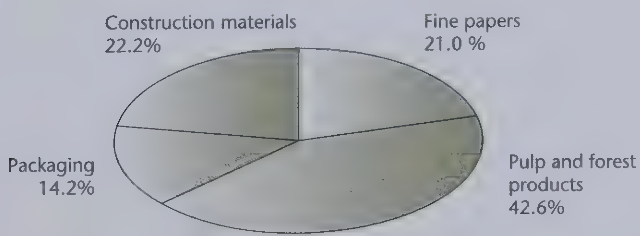
Sales by industry segment in 1994



Sales by geographic area in 1994

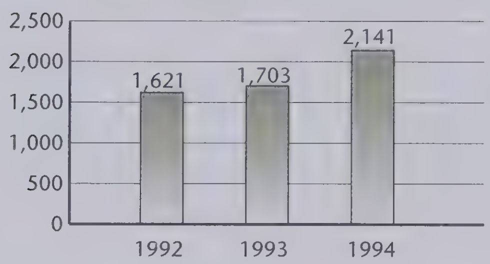


Operating profit before unusual items by industry segment in 1994

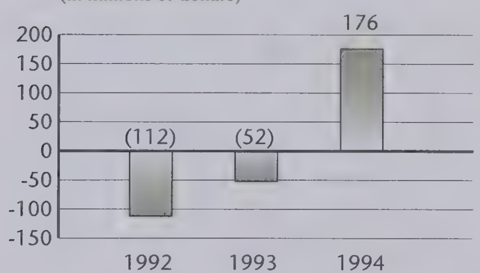


OPERATING RESULTS

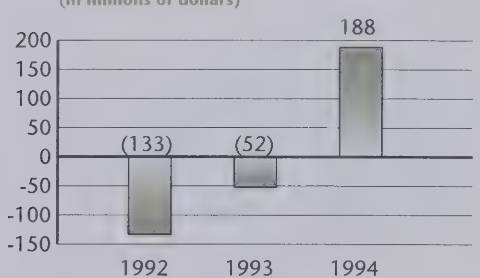
Sales
(in millions of dollars)



Operating profit (loss) before unusual items
(in millions of dollars)



Operating profit (loss)
(in millions of dollars)



Comparative sales and operating results presented for 1993 and 1992 have been reclassified to reflect the impact of the 1994 business divestitures.

Sales in 1994 were 26% higher than in 1993. Higher sales volumes and improved pricing due to increased demand for Domtar's products as well as the weakening of the Canadian dollar were the most significant contributing factors.

As a result, the 1994 operating profit before unusual items also improved significantly, with a turnaround of $228 million compared to 1993. Manufacturing costs in 1994 increased over 1993 mainly due to price increases for raw materials, in particular purchased recycled fibre, reflecting the rapid increase in industry demand. A significant portion of the raw material cost increases was offset by the effect of cost reduction and productivity improvement programs. Selling, general and administrative cost increases were due to additional marketing and selling expenses incurred to support sales growth and non-recurring elements.

Operating results for 1994 include the following unusual items recorded in the fourth quarter:

- A $27 million refund of countervailing duties, including interest, which had been imposed on Domtar's shipments of softwood lumber to the United States since October 4, 1991, as a final decision of the U.S. Department of Commerce was made in December of 1994.
- An $8 million write-down of an idle gypsum paper facility in California.
- A $7 million write-off of expenses incurred and deferred in 1994 relating to the intended divestiture of the gypsum products and decorative panels businesses which had not materialized at December 31, 1994.

PULP AND PAPER

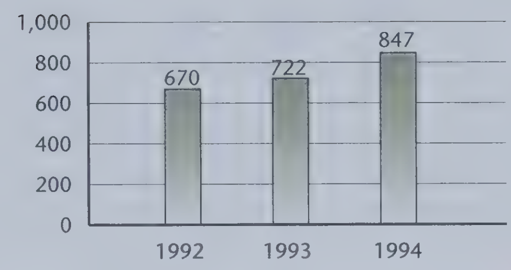
Fine papers

Sales of fine papers increased by 17% in 1994 versus 1993 due to increased shipments, the effect of a weaker Canadian dollar and higher prices in the second half of the year. Operating profit improved to $37 million from a loss of $14 million in 1993.

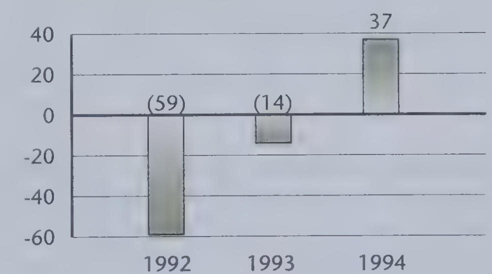
The operating performance at the Windsor, Québec, communication fine paper mill continued to improve in 1994. Shipments of paper reached 505,000 tons, superceding the 1993 record by 7.5%. New daily and yearly production records were established in the pulp mill as well as on the paper machines and converting equipment. This was accomplished through equipment modifications, product mix changes and improved operating practices. In 1994, the mill brought on-line an $18 million modification to its pulp bleach plant which will have the effect of reducing chemical costs while allowing for increased pulp production. Cash costs per ton continued to decrease and, as a result, the mill maintained its position as a low cost producer in North America. Domtar also approved the installation of a second cut-size sheeter which will consolidate the mill's position in the fast-growing copy paper market.

Approximately 75% of the Windsor, Québec, fine paper production was shipped into the U.S. market in 1994. Following very competitive market conditions experienced in the first half of 1994 which resulted in record low prices, improved demand for all communication paper grades prompted producers to implement five price increases between April and December. As a result, by the end of the year, prices had increased by 60% from the second quarter low level, however, average prices for 1994 had improved by only 1% compared to 1993.

Sales
(in millions of dollars)



Operating profit (loss)
(in millions of dollars)



PULP AND PAPER (cont'd)

The specialty fine paper mills' strategy to focus their production on specialty grades resulted in shipments of specialty products increasing by 26% in 1994 compared to 1993, with the majority of the products being shipped into the U.S. market. Competitive pressure on some specialty grades resulted in basically the same average prices for 1994 and 1993, however, towards the end of the fourth quarter, several price increases were implemented. The specialty fine paper mills realized some improvements in their operating performance in 1994, but the rapid increase in the cost of market pulp and waste fibre negatively affected manufacturing costs.

The Cornwall, Ontario, mill successfully brought into operation the recycled bleached corrugated (RBC) facility in 1994 for the production of fine papers. The new facility is the first in the world to produce recycled pulp made entirely from old corrugated containers. The quality of the recycled pulp coming out of the mill compares favourably to other recycled pulp on the market. Optimization efforts are continuing in order to achieve virgin quality pulp levels and to improve productivity. In 1995, Domtar expects to benefit from the cost reductions resulting from this facility as the start-up phase was completed in 1994. The construction of the effluent treatment system at the Cornwall, Ontario, mill is also proceeding ahead of schedule with a start-up anticipated by the second quarter of 1995.

Improved business conditions and previous cost reduction efforts were also beneficial to the Merchants division which has shown continuous improvement of its financial results during 1994.

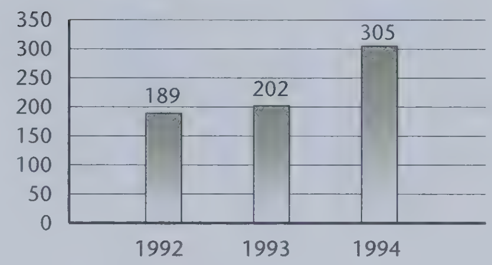
Strong demand for fine papers, the low level of new capacity scheduled for the next two years and the escalating price of market pulp for non-integrated producers encouraged the implementation of a new U.S.$60 per ton price increase on communication grades effective January 1, 1995, with an additional U.S.$60 per ton price increase implemented in February 1995. Prices on specialty grades are also expected to increase in the first quarter of 1995.

PULP AND PAPER (cont'd)

Pulp and forest products

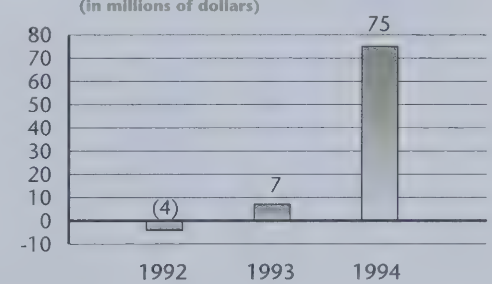
Combined pulp and lumber sales increased by 51% in 1994 due to higher prices, increased shipments and the weakness of the Canadian dollar. Operating profit also improved significantly rising from $7 million in 1993 to $75 million in 1994. Operating profit for 1994 does not include the countervailing duties settlement of $27 million which is reported as an unusual item. Comparative figures have been reclassified to reflect the impact on sales and operating results of a sawmill previously reported in the Packaging segment.

Sales
(in millions of dollars)



The lumber industry experienced a record year in 1994. Higher demand, supply restrictions due to wood availability, escalating wood cost in the U.S. West Coast and British Columbia, as well as the fear of labour disruptions in British Columbia, led to record prices in the first quarter of 1994. With interest rates on the rise and the ability of producers to increase their capacity to meet demand, lumber prices declined in the second half of the year. Nevertheless, the average price for 1994 of U.S.$430/MFB (thousand board feet) set a new record and was 6% higher than the average price for 1993.

Operating profit (loss) before unusual items
(in millions of dollars)



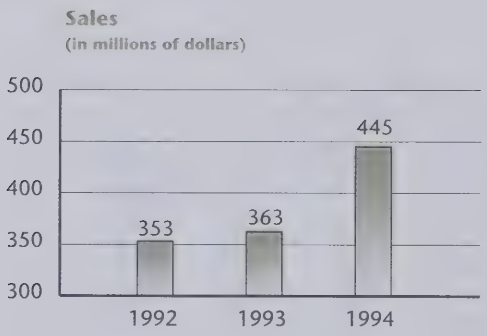
Lumber shipments from the sawmills remaining after the Alliance transaction increased by 22% compared to 1993. This was achieved with the reopening of the Matagami, Québec, sawmill in the spring of 1994 and the optimization of production at other facilities. This division continues to focus on cost reduction projects and is well positioned to compete in the North American market due to its low cost fibre position.

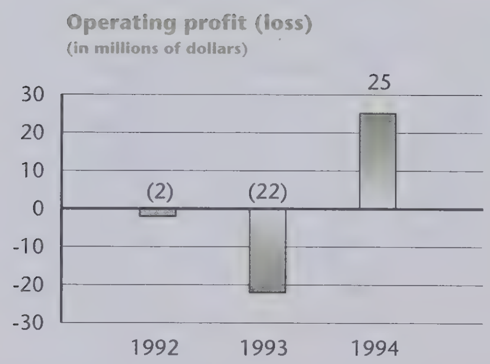
While the favourable lumber market was mostly anticipated, the market pulp business performed well above expectation. Several factors were responsible for this turnaround: low producer and consumer inventory, strong economic recovery in North America, Europe and Japan and uncertainties created by the British Columbia labour negotiations in 1994. The North American operating rate rose from a low of 88% in 1993 to 93% in 1994. This strong business environment resulted in a quick recovery in the prices for bleached softwood kraft pulp. Prices improved by 60% from the end of 1993 to the end of 1994. Average prices for 1994 increased by 23% compared to 1993 average prices.

Shipments from the Lebel-sur-Quévillon, Québec, pulp mill were 13% higher than in 1993. Shipment and quality records were achieved while the mill successfully reduced its operating costs by $53 per tonne. These improvements are due to productivity enhancement initiatives completed in the past few years and the involvement of employees who have committed themselves to improving the competitive position of the mill.

The favourable pulp market conditions in 1994 allowed producers to implement a further price increase of U.S.$50/ADMT (air dried metric ton) effective January 1, 1995 and to announce a new U.S.$75/ADMT increase for March 1, 1995.

PACKAGING





Sales of Domtar's Packaging division increased by 23% in 1994 compared to 1993. Operating profit also improved substantially from an operating loss of $22 million in 1993 to an operating profit of $25 million in 1994. These improvements resulted from improved pricing, favourable currency exchange and a 7% increase in shipments of corrugated containers as well as a 6% increase in containerboard shipments. Operating costs were adversely affected by the higher cost of purchased recycled fibre and higher maintenance expenses partially offset by improved productivity and efficiencies at the Red Rock and Mississauga, Ontario, linerboard facilities. Comparative figures have been reclassified to exclude the impact on sales and operating results of a sawmill now reported in the Pulp and Forest Products segment.

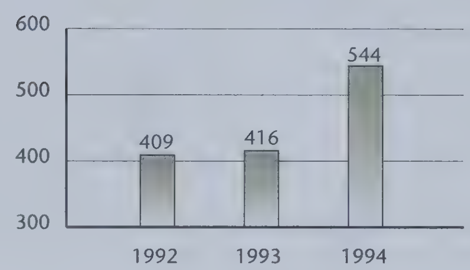
The strong recovery in the North American and overseas economies strengthened the corrugated products market and resulted in demand for containerboard exceeding available supply. This enabled producers to aggressively increase containerboard prices. Three price increases were implemented in 1994 pushing the price of linerboard to a record high of U.S.$435/ton towards the end of the fourth quarter of 1994. Average linerboard prices in 1994 were 20% higher than in 1993. These increases were applied to prices of corrugated containers. A further increase of U.S.$50/ton was implemented in January 1995.

During 1994, the Red Rock containerboard mill successfully reached an agreement with its unionized employees which included a provision for more flexible operating practices. The mill was also able to reach an agreement with the Ontario provincial government and an independent sawmill producer to assure an adequate supply of fibre. These events led Domtar to proceed with a $25 million secondary effluent treatment project.

CONSTRUCTION MATERIALS

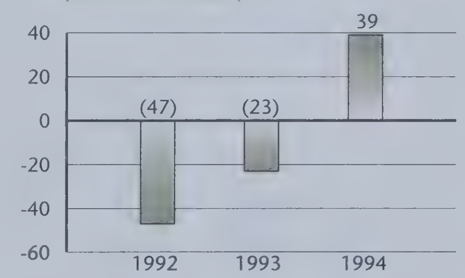
Sales of construction materials in 1994 were 31% higher than in 1993 due to higher selling prices for gypsum wallboard and melamine decorative panels combined with a 9% increase in gypsum wallboard shipments and an 18% increase in melamine panel shipments. Consequently, operating profit improved by $62 million. Operating profit for 1994 does not include the $ 8 million write-down of an idle gypsum paper facility nor the $ 7 million write-off of expenses incurred and deferred in 1994 relating to the intended divestiture of the gypsum products and decorative panels businesses. The above-mentioned items are reported as unusual items.

Sales
(in millions of dollars)



Gypsum wallboard prices in 1994 increased by 20%, on average over the prior year and the prices for melamine panels increased by 19% due to improved market conditions. Improved consumer confidence and increased employment continued to fuel U.S. residential construction despite increasing interest rates during 1994. New commercial construction lagged as a result of high inventories of vacant space, but the repair and renovation market remained strong. Higher demand for gypsum board in the South Central U.S. led Domtar to resume, in September 1994, its operations at Sweetwater, Texas, where activity had been suspended since September 1991.

Operating profit (loss) before unusual items
(in millions of dollars)



Operating costs for the Gypsum Products division in 1994 were higher than the prior year mainly as a result of higher recycled fibre costs, which affected the cost of paper produced internally as well as paper purchased from outside sources. In the Decorative Panels division, raw material costs increased as a result of tighter market conditions for resins and wood fibre. Production at the Huntsville, Ontario, decorative panels facility set new records in the third quarter of 1994 allowing for higher shipments and improved efficiency which more than offset increasing raw material costs.

Included in the results of the Construction Materials segment are site restoration costs relating to the wood preserving business divested in 1993. In 1994, these costs amounted to $9 million compared to $7 million in 1993.

OTHER EXPENSES

Financing Expenses

In 1994, financing expenses charged against earnings, net of interest income, were $137 million, basically unchanged from the previous year. While financing expenses were negatively affected by the impact of the weaker Canadian dollar on U.S. dollar denominated debt, this was offset by interest income earned on investments held in trust, following the Alliance transaction.

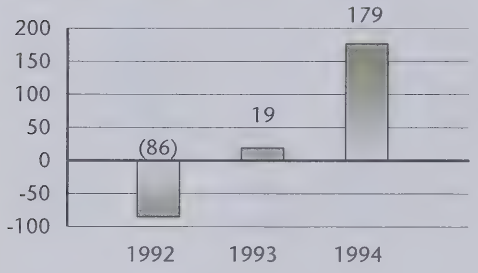
Income Taxes

The income tax expense of $18 million for 1994 represents an effective tax rate of 35% compared to an effective recovery rate of 34% in 1993.

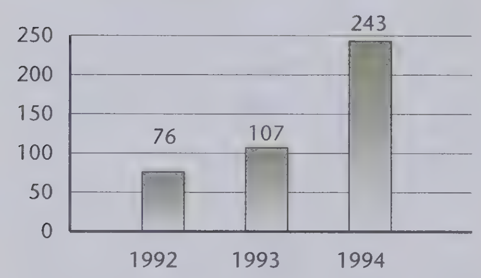
As at December 31, 1994, U.S. subsidiaries had accumulated loss carryforwards of approximately U.S.$147 million for which the tax benefit had not been reflected in earnings. These losses expire in various amounts between the years 2004 and 2008.

LIQUIDITY AND CAPITAL RESOURCES

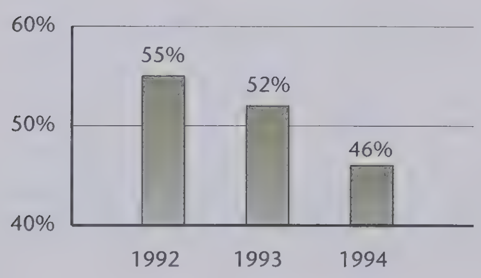
Net cash provided by (used for) operating activities
(in millions of dollars)



Capital expenditures
(in millions of dollars)



Debt to capitalization percentage



In 1994, Domtar's cash flow covered essentially all of its investing activities for the first time since 1990. This compares to a $60 million shortfall in 1993 and is due to improved operating results and net proceeds obtained from business divestitures, excluding funds held in trust. Net cash flow from continuing operations in 1994 was $159 million compared to a $25 million shortfall in 1993 due to improved results. Earnings before interest, income taxes, depreciation and amortization and unusual items ("EBITDA") was $319 million in 1994, a $228 million improvement over 1993.

Additions to property, plant and equipment in 1994 totalled $243 million compared to $107 million in 1993. The construction of the recycled bleached corrugated facility and the secondary effluent treatment facility at Cornwall, Ontario, account for most of the increase.

As at December 31, 1994, the Corporation's total long-term debt, net of short-term investments and short-term deposits held in trust, was $864 million compared to $1,045 million as at December 31, 1993. In the second quarter of 1994, concurrently with the Alliance transaction, the $500 million revolving bank credit facility was reduced to $300 million. In conjunction with this transaction, Domtar arranged a new $150 million standby line of credit which was unutilized at the end of 1994. As at December 31, 1994, $91 million (1993 - $106 million) of borrowings and $9 million (1993 - $36 million) of letters of credit were outstanding under the $300 million revolving bank credit facility.

Domtar had short-term investments amounting to $87 million and $226 million of short-term deposits held in trust as at December 31, 1994. Such funds held in trust originated from the gross proceeds from the Alliance transaction and are held to guarantee the payment of certain of Domtar's creditors until May 1995, at which time the funds become available to Domtar.

The combination of proceeds from business divestitures and improved operating performance in 1994 resulted in an improvement in Domtar's ratio of debt, net of short-term investments and of short-term deposits held in trust, to convertible debentures and shareholders' equity. Consequently, the debt to capitalization percentage decreased to 46% as at December 31, 1994, from 52% as at December 31, 1993.

Management believes that the Corporation's revolving bank credit facility, together with its short-term investments, short-term deposits to be released from trust in May 1995 and internally generated cash flow will be sufficient to meet Domtar's capital expenditure program estimated at $450 million and other foreseeable cash requirements during 1995.

1993 COMPARED TO 1992

In 1993, significant progress was made by Domtar to stem losses as the North American economy finally began to show some signs of recovery. While the Corporation benefitted largely from a lower Canadian dollar and price increases implemented on some products, prices on average in 1993 were lower than those achieved in 1992, which were already at historically low levels. Efforts made throughout the Corporation to reduce costs and increase productivity were an important factor in the improvement of operating results.

Domtar incurred a net loss of $111 million ($0.90 net loss per common share) in 1993, compared to a net loss $159 million ($1.36 net loss per common share) in 1992. The improvement was due to better operating results partially offset by higher financing expenses. Termination and closure costs totalling $21 million associated with the Corporation's cost reduction and productivity improvement programs, presented as unusual items, unfavourably impacted the 1992 operating results. Comparative results presented for 1993 and 1992 have been reclassified to reflect the impact of the 1994 business divestitures.

Operating results

Sales in 1993 at $1,703 million increased by 5% over 1992 levels due to higher shipments in most of Domtar's businesses together with the favourable impact of the weaker Canadian dollar. This was partially offset by lower selling prices and lower sales resulting from the disposal of the wood preserving business in 1993. While prices improved in certain business segments, they were on average lower than 1992 levels primarily due to weak market conditions for pulp and packaging products.

The $52 million operating loss in 1993 was a $60 million improvement over the 1992 operating loss of $112 million before unusual items, primarily as a result of improved sales and lower operating expenses.

Pulp and Paper

Sales in the Fine Papers segment at $722 million improved by 8% in 1993 over the 1992 levels due to a 12% increase in communication grade shipments, an 8% increase in shipments of specialty grades along with the favourable impact of the weaker Canadian dollar, partially offset by lower selling prices. Operating results before unusual items improved from a loss of $59 million in 1992 to a loss of $14 million in 1993 due to higher sales and reduced operating costs resulting from significant productivity gains at the Windsor, Quebec, communication fine paper mill. At the Cornwall, Ontario, specialty fine paper mill, operating results were lower than anticipated due to operating difficulties caused by simultaneously undertaking several conversion projects.

Sales in the Pulp and Forest Products segment in 1993, at $202 million, were 7% higher than in 1992 due to higher lumber prices, the favourable impact of the weaker Canadian dollar and higher lumber shipments. These factors were partially offset by lower shipments and selling prices for pulp. Operating results before unusual items improved by $11 million to reach an operating profit of $7 million in 1993 mostly as a result of higher lumber selling prices, together with the favourable impact of the weaker Canadian dollar, which more than offset poor market conditions for pulp and higher operating expenses.

In 1993, selling prices for lumber achieved record levels in the first quarter which were nearly repeated in the fourth quarter. On average, lumber prices in 1993 were 20% higher than in 1992. Softwood pulp prices, however, declined by approximately 15% during 1993 due to weak market conditions.

1993 COMPARED TO 1992 (cont'd)

Packaging

Sales in 1993, at $363 million, increased by 3% over 1992 levels due to a 12% increase in corrugated container shipments, a 22% increase in trade containerboard shipments and the favourable impact of the weaker Canadian dollar. Pricing for corrugated containers remained low throughout 1993 due to continuing weak industrial production activity. Following significant price erosion on both corrugated containers and containerboard during the first half of 1993 due to weak export markets, selling price increases were implemented in the U.S. during the fourth quarter on containerboard as a result of improved market demand and reduced inventory levels. The flow-through of this increase into corrugated container prices did not occur until 1994. Operating results in 1993 were worse than in the previous year due to weaker pricing for packaging products partially offset by increased shipments and the favourable impact of the weaker Canadian dollar.

Construction Materials

Sales in 1993 at $416 million were basically unchanged compared to 1992 as a 27% increase in decorative panel shipments as well as higher selling prices for both gypsum wallboard and decorative panels were offset by lower sales resulting from the disposal of the wood preserving business early in 1993. Operating results improved due to higher selling prices and the favourable effect of improvements in the productivity of the decorative panel plants on sales volumes and operating expenses. Included in the 1993 operating results was a $7 million charge, compared to $10 million in 1992, for site restoration costs associated with the former wood preserving business and classified as selling, general and administrative expenses in the earnings statement.

Financing Expenses

In 1993, financing expenses charged against earnings, net of interest income, increased to $136 million, compared to $107 million in 1992 due to incremental borrowings in 1993 at higher interest rates and the negative impact of the weaker Canadian dollar on U.S. dollar denominated debt.

Income Taxes

The income tax recovery of $63 million for 1993 represents an effective tax recovery rate of 34% compared to 35% in 1992.

RISK AND OPPORTUNITIES

Foreign exchange risk and risk management

The Corporation has only limited involvement with derivative financial instruments and does not use them for speculative purposes. In order to reduce the potential negative effect of a rising Canadian dollar, the Corporation has entered into various hedging arrangements. As at December 31, 1994, the Corporation had the right but not the obligation to sell U.S.$250 million at an average rate of U.S.$0.75 during 1995. In addition, the Corporation had entered into a hedging arrangement for U.S.$180 million whereby it had the right but not the obligation to sell U.S.$180 million at an average rate of U.S.$0.76 throughout 1995 and 1996, but was also obligated to sell U.S.$180 million during the same period at a rate of U.S.$0.71 if the Canadian dollar was trading below U.S.$0.71. Assuming that rates of exchange at year-end remain constant throughout the duration of these foreign exchange arrangements, net sales would be reduced by $2 million in 1995 and by $1 million in 1996.

A significant proportion of Domtar's sales are sensitive to the value of the U.S. dollar relative to the Canadian dollar. Domtar estimates that a one-cent change in the value of the Canadian dollar will affect operating results in 1995 by approximately $17 million before taking into account any effect of derivative instruments.

In 1994, the Canadian dollar averaged U.S.$0.73 compared to U.S.$0.78 in 1993.

Environmental compliance

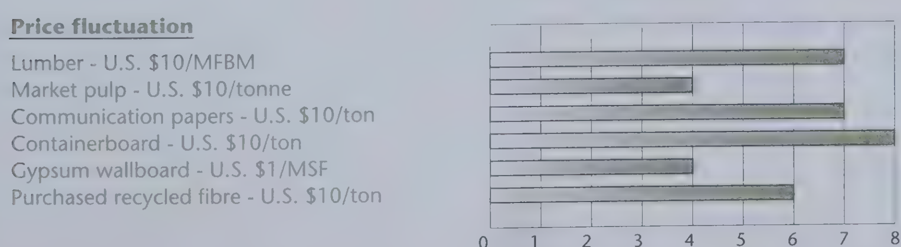
Domtar is subject to increasingly stringent environmental laws, regulations and standards imposed by federal, provincial and local authorities in Canada, and by federal, state and local authorities in the United States, in all areas in which Domtar operates. Moreover, Domtar's activities in the Pulp and Paper and Packaging segments in Canada are subject to industry-specific regulations from federal and, in some cases, provincial levels of government.

These regulations require Domtar to make substantial capital expenditures to comply with new effluent and air emission standards at its current facilities by 1995 and 1996, depending on the jurisdiction. Based on current operations, Domtar estimates that it will need to make, in the aggregate, approximately $190 million in additional capital expenditures to comply with these pulp and paper and packaging environmental regulations in 1995 and 1996, of which approximately $140 million is expected to be spent in 1995 compared to $85 million in 1994. Domtar expects to be in compliance with the current standards by 1995 and 1996 as required.

Sensitivity analysis

Domtar's operating results are sensitive, among other things, to fluctuations in the prices of certain commodity products. The following graph presents the estimated annual effect on operating results of a U.S.$10 per unit (except gypsum wallboard - U.S.$1 per thousand square foot (MSF)) fluctuation, at the 1994 average exchange rate, on prices of selected products sold by Domtar. It also presents the effect of a U.S.$10 per ton fluctuation in the price of purchased recycled fibre.

Impact on operating results
(in millions of Canadian dollars)



RISK AND OPPORTUNITIES (cont'd)

Outlook for 1995

Domtar's priorities for the past four years were focused on improving the Corporation's financial flexibility and reducing the cost gap with competitors while enhancing the value of the various businesses. A strategic plan for the Corporation is currently being updated by management and the board of directors. It will be completed in the spring of 1995. In 1994, Domtar considered the divestiture of the gypsum products and decorative panels businesses through an initial public offering of securities. The decision has been deferred due to unfavourable financial market conditions and pending the conclusion of Domtar's strategic review.

Attractive pricing for Domtar products is anticipated in 1995 as demand is expected to remain strong and capacity additions scheduled in 1995 for businesses in which Domtar operates is limited. Prices of products, which recovered faster than anticipated in the second half of 1994, are expected to continue to improve. Within a strong economic environment and with the completion of various business divestitures, Domtar is now in a position to concentrate on the optimization and controlled growth of its businesses in order to further improve its competitive position and maximize shareholders' return.

With productivity improvements implemented over the last four years and a continued weak Canadian dollar, Domtar is confident it will achieve increased profitability in 1995. The Corporation will continue to implement its organizational strategy in order to enhance its competitive position and capitalize on opportunities which will allow Domtar to take advantage of situations that will develop over the next economic cycle.

DIVIDENDS AND COMMON STOCK PRICES

	1994	1993	1992	1991	1990
Dividends paid per common share	**$ -**	$ -	$ -	$ -	$ 0.3049
Share price at year-end on Montreal Stock Exchange	**$ 9 5/8**	$ 8 1/2	$ 5 3/8	$ 7 3/4	$ 9 1/2

Quarterly share prices for the common shares of Domtar during 1994 and 1993 were as follows:

	1st	**2nd**	**3rd**	**4th**
1994				
Market price				
Toronto & Montreal stock exchanges				
High	**$ 9 1/8**	**$ 8**	**$ 8 5/8**	**$ 10 1/8**
Low	**7 3/8**	**6 1/2**	**6 5/8**	**7 1/8**
New York Stock Exchange (U.S.$)				
High	**6 7/8**	**5 3/4**	**6 3/8**	**7 1/8**
Low	**5 3/8**	**4 3/4**	**4 7/8**	**5 1/4**
1993				
Market price				
Toronto & Montreal stock exchanges				
High	$ 6 1/2	$ 6 5/8	$ 7 1/4	$ 9 1/4
Low	4 7/8	5 1/4	5 7/8	6 3/8
New York Stock Exchange (U.S.$)				
High	5 1/8	5 [illegible]	5 [illegible]	6 [illegible]
Low	3 3/4	4 1/4	4 5/8	4 3/4

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The consolidated financial statements contained in this Annual Report are the responsibility of management and have been prepared in accordance with generally accepted accounting principles. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data included in the financial statements.

In support of its responsibility, management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Corporation's external auditors are responsible for auditing the financial statements and giving an opinion thereon. In addition, the Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors carries out its responsibility relative to the consolidated financial statements principally through its Audit Committee, consisting solely of outside directors, which reviews the financial statements and reports thereon to the Board. The Committee meets periodically with the external auditors, internal auditors and management to review their respective activities and the discharge of each of their responsibilities. Both the external auditors and the internal auditors have free access to the Committee, with or without management, to discuss the scope of their audits, the adequacy of the system of internal control and the adequacy of financial reporting.

Stephen C. Larson

Stephen C. Larson
President and Chief Operating Officer

Pierre Fitzgibbon

Pierre Fitzgibbon
Senior Vice-President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
Domtar Inc.

We have audited the consolidated balance sheets of Domtar Inc. as at December 31, 1994 and 1993 and the consolidated statements of earnings, retained earnings (deficit) and cash flows for each of the years in the three-year period ended December 31, 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Domtar Inc. as at December 31, 1994 and 1993 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1994 in accordance with generally accepted accounting principles in Canada.

Price Waterhouse

Chartered Accountants

Raymond, Chabot, Martin, Paré

General Partnership
Chartered Accountants

Montréal, Québec
January 17, 1995

CONSOLIDATED STATEMENT OF EARNINGS

(In millions of Canadian dollars, except per share amounts)

	Year ended December 31		
	1994	1993	1992
Sales	**$ 2,141**	$ 1,703	$ 1,621
Operating expenses			
Cost of sales	**1,664**	1,487	1,461
Selling, general and administrative (Note 13)	**158**	125	119
Amortization (Note 2)	**143**	143	153
	1,965	1,755	1,733
Operating profit (loss) before unusual items	**176**	(52)	(112)
Unusual items (Note 3)	**12**	-	(21)
Operating profit (loss)	**188**	(52)	(133)
Financing expenses (Note 4)	**137**	136	107
Earnings (loss) from continuing operations before income taxes	**51**	(188)	(240)
Income taxes (Note 5)	**18**	(63)	(84)
Earnings (loss) from continuing operations	**33**	(125)	(156)
Earnings (loss) from discontinued operations, including a net gain on divestitures of $33 in 1994 (Note 6)	**42**	14	(3)
Net earnings (loss)	**75**	(111)	(159)
Dividend requirements of preferred shares	**3**	3	5
Net earnings (loss) applicable to common shares	**$ 72**	$ (114)	$ (164)
Per common share (Note 15)			
Earnings (loss) from continuing operations			
Basic	**$ 0.23**	$ (1.01)	$ (1.33)
Fully diluted	**0.22**		
Net earnings (loss)			
Basic	**$ 0.56**	$ (0.90)	$ (1.36)
Fully diluted	**0.46**		

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(In millions of Canadian dollars)

	December 31 1994	1993
ASSETS		
Current assets		
Short-term investments, at cost	**$ 87**	$ 115
Short-term deposits held in trust (Note 6)	**226**	-
Receivables, net of allowance for doubtful accounts of $11 (1993 - $11)	**307**	250
Inventories (Note 7)	**259**	284
Prepaid expenses	**9**	14
	888	663
Investments and advances	**24**	27
Property, plant and equipment (Note 8)	**1,809**	1,898
Other assets (Note 9)	**120**	103
	$ 2,841	$ 2,691
LIABILITIES AND CONVERTIBLE DEBENTURES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	**$ 16**	$ 9
Trade and other payables (Note 10)	**311**	292
Income and other taxes payable	**17**	18
Long-term debt due within one year (Note 11)	**9**	12
	353	331
Long-term debt (Note 11)	**1,168**	1,148
Deferred credits	**79**	95
Deferred income taxes	**101**	66
Other liabilities (Note 12)	**104**	84
Convertible debentures and shareholders' equity		
Convertible debentures (Note 14)	**150**	150
Preferred shares (Note 15)	**219**	222
Common shares (Note 15)	**719**	716
Deficit	**(30)**	(102)
Accumulated foreign currency translation adjustments (Note 16)	**(22)**	(19)
	1,036	967
	$ 2,841	$ 2,691

See accompanying notes to consolidated financial statements.

Approved by the Board:

Gilles Blondeau, Director

Stephen C. Larson

Stephen C. Larson, Director

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of Canadian dollars)

	Year ended December 31		
	1994	1993	1992
Operating activities			
Earnings (loss) from continuing operations	**$ 33**	$ (125)	$ (156)
Non-cash items:			
Amortization	**143**	143	153
Deferred income taxes	**13**	(67)	(86)
Other	**19**	5	5
Change in other liabilities	**4**	5	11
Cash flow provided by (used for) continuing operations	**212**	(39)	(73)
Cash provided by (invested in) continuing operations working capital (Note 17)	**(53)**	14	(27)
Net cash flow from (used for) continuing operations	**159**	(25)	(100)
Net cash flow from discontinued operations	**20**	44	14
Net cash provided by (used for) operating activities	**179**	19	(86)
Investing activities			
Additions to property, plant and equipment	**(243)**	(107)	(76)
Disposal of property, plant and equipment	**17**	13	15
Net proceeds from business divestitures	**297**	28	-
Short-term deposits held in trust	**(226)**	-	-
Other	**(22)**	(10)	(2)
Cash used for investing activities	**(177)**	(76)	(63)
Dividend payments	**(3)**	(3)	(7)
Cash flow before financing activities	**(1)**	(60)	(156)
Financing activities			
Change in revolving bank credit	**(21)**	(25)	(194)
Debentures and notes repaid	**(14)**	(193)	(15)
Common shares issued, net of expenses	**3**	5	148
Preferred shares redeemed	**(2)**	(2)	(71)
Convertible debentures issued, net of expenses	**-**	147	-
Notes issued, net of expenses	**-**	213	202
Cash provided by (used for) financing activities	**(34)**	145	70
Increase (decrease) during the year	**(35)**	85	(86)
Net cash position at beginning of year	**106**	21	107
Net cash position at end of year	**$ 71**	$ 106	$ 21
Represented by:			
Short-term investments	**$ 87**	$ 115	$ 42
Bank indebtedness	**(16)**	(9)	(21)
	$ 71	$ 106	$ 21

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

(In millions of Canadian dollars)

	Year ended December 31		
	1994	1993	1992
Retained earnings (deficit) at beginning of year	**$ (102)**	$ 12	$ 178
Net earnings (loss)	**75**	(111)	(159)
	(27)	(99)	19
Deduct:			
Cash dividends declared on preferred shares	**3**	3	5
Expenses on issue of shares, net of income taxes of $1 in 1992	**-**	-	2
	3	3	7
Retained earnings (deficit) at end of year	**$ (30)**	$ (102)	$ 12

See accompanying notes to consolidated financial statements.

(In millions of Canadian dollars, unless otherwise noted)

1. Summary of significant accounting policies

The consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of Domtar, differ in certain respects from those in the United States as explained in Note 21.

Basis of consolidation

The financial statements include the accounts of Domtar Inc. (the Corporation) and all its subsidiaries (collectively, Domtar).

Translation of foreign currencies

For foreign subsidiaries which are considered financially and operationally self-sustaining, the current-rate method of translation of foreign currencies is followed. Therefore, all gains and losses arising from the translation of the financial statements of these foreign subsidiaries are deferred in an "Accumulated foreign currency translation adjustments" account under "Convertible debentures and shareholders' equity".

The gains and losses resulting from the translation of foreign currency transactions are included in earnings, except for those on long-term debt denominated in foreign currency. For such debt designated as a hedge of the net investment in foreign subsidiaries, exchange gains and losses are included in the "Accumulated foreign currency translation adjustments" account. For the remaining long-term debt denominated in foreign currency, exchange gains and losses are deferred and amortized over the remaining term of the related obligation.

The Corporation manages its foreign exchange exposure on anticipated U.S. dollar sales through the use of options and forward contracts. Resulting gains and losses are recognized when realized and are included in sales. The cost of options is amortized over the hedging period and is also included in sales.

Inventories

Inventories of operating and maintenance supplies and raw materials are valued at the lower of average cost and replacement cost. Work in process and finished goods are valued at the lower of cost, being average cost for finished goods, and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses.

Property, plant and equipment

Property, plant and equipment is stated at cost. Interest costs are capitalized on additions to property, plant and equipment which are in excess of $10 million and for which the period of construction exceeds one year. The interest rate used is equal to the weighted average of the effective interest rates on long-term debt. Assets under construction represent those additions to property, plant and equipment on which interest costs are capitalized.

For timber limits, amortization is provided on the unit of production method. For all other assets, amortization is provided on the straight-line method using rates based on the estimated useful lives of the assets which are generally as follows:

Buildings	Up to 40 years
Machinery and equipment	Up to 20 years

The amortization expense is reported net of the amount of the amortization of deferred credits related to government grants and investment tax credits. No amortization is recorded on assets under construction.

(In millions of Canadian dollars, unless otherwise noted)

1. Summary of significant accounting policies (cont'd)

Other assets

Other assets are recorded at cost. Preproduction costs, including training and start-up expenses, on projects in excess of $75 million are deferred and amortized on a straight-line basis over a five-year period commencing with the start-up of commercial operations. Expenses incurred in issuing long-term debt are deferred and amortized on a straight-line basis over the term of the related obligation. Goodwill and other assets, if applicable, are amortized on a straight-line basis over periods not exceeding twenty-five years.

Deferred credits

Deferred credits comprise government grants and investment tax credits earned in acquiring property, plant and equipment and net interest rate hedging gains on long-term debt. Government grants and investment tax credits are amortized on the same basis as the related property, plant and equipment, while net interest rate hedging gains are amortized on a straight-line basis over the term of the related debt. Deferred credits are reported net of accumulated amortization.

Environmental costs

Environmental expenditures, including site restoration costs, that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when remedial efforts are probable, the costs are expected to be incurred within the next five years and the costs can be reasonably estimated.

Income taxes

Deferred income taxes result primarily from timing differences due to amortization claimed for income tax purposes in excess of amounts recorded for financial statement purposes, partially offset by the tax effect of losses carried forward.

The Corporation does not provide for income taxes on undistributed income of foreign subsidiaries as such income is being reinvested in foreign operations.

2. Amortization

	1994	1993	1992
Property, plant and equipment	**$ 139**	$ 133	$ 137
Preproduction costs	**2**	8	14
Goodwill and other assets	**2**	2	2
Continuing operations	**143**	143	153
Discontinued operations	**6**	17	17
	$ 149	$ 160	$ 170

(In millions of Canadian dollars, unless otherwise noted)

3. Unusual items

	1994	1993	1992
Refund of countervailing duties	**$ 27**	$ -	$ -
Write-down of assets	**(15)**	-	-
Restructuring expenses	**-**	-	(21)
	$ 12	$ -	$ (21)

Refund of countervailing duties

Following a decision of the U.S. Department of Commerce, the Corporation was entitled to a refund of all countervailing duties, plus interest, imposed since October 4, 1991 on its softwood lumber exports to the U.S. Of the $27 million refund recorded, $2 million represent interest at the prescribed rate of U.S. Treasury Bills plus 3%, $8 million relate to 1994 and $17 million relate to duties of prior years. These duties had originally been recorded as a deduction from sales in the years in which they were incurred. As at December 31, 1994, $19 million was yet to be collected.

Write-down of assets

This amount consists of an $8 million write-down of an idle facility to its net recoverable amount and expenses of $7 million incurred and deferred in 1994 related to intended divestitures that did not materialize as at December 31, 1994.

Restructuring expenses

Domtar incurred termination and other rationalization expenses related to significant restructuring actions undertaken during 1992.

4. Financing expenses

	1994	1993	1992
Interest on long-term debt, net	**$ 114**	$ 118	$ 102
Interest on convertible debentures	**12**	9	-
Amortization of deferred debt issue expenses and exchange losses	**20**	14	10
	146	141	112
Less: Amount capitalized	**9**	5	5
	$ 137	$ 136	$ 107

Cash payments for interest, net of the amount capitalized, totalled $119 million in 1994 (1993 - $120 million; 1992 - $93 million).

Interest on long-term debt is net of interest revenue from short-term investments and short-term deposits held in trust, totalling $12 million in 1994 (1993 - $6 million; 1992 - $2 million).

(In millions of Canadian dollars, unless otherwise noted)

5. Income taxes

The following summarizes Domtar's income taxes on earnings (losses) of its Canadian and foreign continuing operations:

	1994	1993	1992
Canada			
Earnings (loss) from continuing operations before income taxes	**$ 40**	$ (169)	$ (226)
Income taxes			
Current	**4**	4	2
Deferred	**13**	(67)	(86)
	17	(63)	(84)
Earnings (loss) from continuing operations	**$ 23**	$ (106)	$ (142)
Foreign			
Earnings (loss) from continuing operations before income taxes	**$ 11**	$ (19)	$ (14)
Income taxes			
Current	**1**	-	-
Earnings (loss) from continuing operations	**$ 10**	$ (19)	$ (14)
Total			
Earnings (loss) from continuing operations before income taxes	**$ 51**	$ (188)	$ (240)
Income taxes			
Current	**5**	4	2
Deferred	**13**	(67)	(86)
	18	(63)	(84)
Earnings (loss) from continuing operations	**$ 33**	$ (125)	$ (156)

(In millions of Canadian dollars, unless otherwise noted)

5. Income taxes (cont'd)

The elements of deferred income taxes were as follows:

	1994	1993	1992
Tax losses	**$ -**	$ (18)	$ (35)
Utilization of prior years' losses	**16**	-	-
Difference between income taxes allowance and accounting amortization of property, plant and equipment	**-**	(45)	(46)
Expenses deducted for income tax purposes and capitalized in the financial statements	**4**	(2)	(4)
Other	**(7)**	(2)	(1)
	$ 13	$ (67)	$ (86)

The effective income tax rate differs from the Canadian statutory income tax rate. The principal factors causing these different income tax rates were as follows:

	1994	1993	1992
Canadian statutory income tax rate	**39.4 %**	39.5 %	39.5 %
Canadian manufacturing and processing credit	**(4.1)**	(4.5)	(4.3)
Tax on large corporations	**7.5**	(2.1)	(1.9)
Income taxed at lower rates	**(3.0)**	1.3	0.7
Unrecorded tax effect of U.S. losses	**-**	(5.3)	(3.0)
Realization of unrecorded tax effect of U.S. losses	**(4.5)**	-	-
Tax rate differential resulting from the drawdown of deferred taxes	**-**	4.7	3.4
Other	**-**	(0.1)	0.6
Effective income tax rate	**35.3 %**	33.5 %	35.0 %

Cash payments for income taxes in 1994 amounted to $5 million (1993 and 1992 - $5 million).

Unrecorded tax effect of losses
As at December 31, 1994, U.S. subsidiaries had loss carryforwards of approximately U.S. $147 million for which the tax effect had not been reflected in earnings. These losses expire in various amounts between the years 2004 and 2008.

(In millions of Canadian dollars, unless otherwise noted)

6. Discontinued operations

Effective May 12, 1994, the Corporation disposed of its Groundwood Printing Papers division, and related lumber business, consisting of two paper mills located in Dolbeau and Donnacona, Québec, as well as two sawmills in Mistassini and Saint-Félicien, Québec, to Alliance Forest Products Inc. ("Alliance"), a newly formed subsidiary, in consideration for gross proceeds of $289 million raised through a public offering of equity securities of Alliance. As a result, the Corporation did not retain any ownership in Alliance. The gross proceeds were placed in trust for a period of one year. However, a proportionate amount of funds can be released from trust before the period is over, following payments to creditors outstanding as at May 12, 1994. As at December 31, 1994, $63 million have been released from trust.

Effective June 30, 1994, the Corporation disposed of its Commercial Roofing and Insulation division to Exeltherm Inc., a newly created company owned by its employees, in consideration for notes. The repayment of these notes is subject to future financial performance of Exeltherm Inc.

The net gain relative to these discontinued operations includes various provisions for potential obligations established at the time of the divestitures.

The operating results of the above businesses to their effective divestiture dates, together with the net gain on divestitures, have been included in "Earnings (loss) from discontinued operations" in the Consolidated Statement of Earnings. Comparative figures have been reclassified to conform with this presentation. The comparative amounts represent operating results for the entire period for all discontinued operations.

The results of the discontinued operations are as follows:

	1994	1993	1992
Sales	**$ 108**	$ 265	$ 263
Operating earnings (loss) before income taxes	**$ 13**	$ 22	$ (5)
Income taxes	**4**	8	(2)
Operating earnings (loss) from discontinued operations	**9**	14	(3)
Net gain on divestitures, net of deferred income taxes of $17	**33**	-	-
Earnings (loss) from discontinued operations	**$ 42**	$ 14	$ (3)

7. Inventories

	1994	1993
Operating and maintenance supplies	**$ 71**	$ 83
Raw materials	**91**	88
Work in process and finished goods	**97**	113
	$ 259	$ 284

(In millions of Canadian dollars, unless otherwise noted)

8. Property, plant and equipment

	1994		
	Cost	Accumulated Amortization	Net
Buildings	**$ 725**	**$ 283**	**$ 442**
Machinery and equipment	**2,485**	**1,274**	**1,211**
Timber limits and land	**87**	**11**	**76**
Assets under construction	**80**	**-**	**80**
	$ 3,377	**$ 1,568**	**$ 1,809**

	1993		
	Cost	Accumulated Amortization	Net
Buildings	$ 768	$ 280	$ 488
Machinery and equipment	2,660	1,364	1,296
Timber limits and land	95	13	82
Assets under construction	32	-	32
	$ 3,555	$ 1,657	$ 1,898

9. Other assets

	1994		
	Cost	Accumulated Amortization	Net
Preproduction costs	**$ 5**	**$ -**	**$ 5**
Exchange losses on translation of long-term debt	**110**	**32**	**78**
Debt issue expenses	**39**	**16**	**23**
Goodwill and other assets	**19**	**5**	**14**
	$ 173	**$ 53**	**$ 120**

	1993		
	Cost	Accumulated Amortization	Net
Preproduction costs	$ 71	$ 69	$ 2
Exchange losses on translation of long-term debt	71	16	55
Debt issue expenses	39	12	27
Goodwill and other assets	30	11	19
	$ 211	$ 108	$ 103

(In millions of Canadian dollars, unless otherwise noted)

10. Trade and other payables

	1994	1993
Trade accounts payable	**$ 151**	$ 147
Accrued interest	**36**	36
Accrued vacation pay	**32**	35
Payables on capital projects	**27**	14
Other	**65**	60
	$ 311	$ 292

11. Long-term debt

	Maturity	1994	1993
Unsecured debentures, notes and term loan			
10.35% Debentures	2006	**$ 79**	$ 86
10% Debentures	2011	**89**	93
10.85% Debentures	2017	**77**	80
11-1/4% Debentures (1994 and 1993 - U.S.$150)	2017	**211**	199
11-3/4% Notes (1994 and 1993 - U.S.$175)	1999	**245**	232
12% Notes (1994 and 1993 - U.S.$175)	2001	**245**	232
10.2% Term Loan (1994 and 1993 - U.S.$100)	1997	**140**	132
		1,086	1,054
Revolving bank credit (U.S.$65; 1993 - Cdn$20, U.S.$65)	1997	**91**	106
		1,177	1,160
Less: Due within one year		**9**	12
		$ 1,168	$ 1,148

The interest rates on the 11-1/4% Debentures and the 10.2% Term Loan were hedged by the Corporation resulting in effective rates of interest of 10.56% and 10.37%, respectively.

The 10.35% and 11-1/4% Debentures have sinking fund requirements. The 10% and 10.85% Debentures each have purchase fund requirements, by which the Corporation has undertaken to make all reasonable efforts to purchase quarterly for cancellation a portion of the aggregate principal amount of the debentures at prices not exceeding par.

In May 1994, as a result of the Alliance divestiture, the Corporation's $150 million unsecured tranche of the revolving bank credit was terminated and replaced by a standby bank credit for the same amount. Borrowings under this credit would be secured by a first ranking deed of hypothec covering certain property, plant and equipment until May 31, 1995 and thereafter by cash security. Availability will be reduced to $75 million on December 31, 1995 and will terminate December 31, 1996. In addition, availability would be reduced by the net cash proceeds from the sale of property, plant and equipment. Borrowings under the $150 million standby bank credit are available after the $300 million secured revolving bank credit has been fully utilized.

Availability under the $350 million secured revolving bank credit was voluntarily reduced to $300 million at the time of the Alliance divestiture. Borrowings are secured by movable hypothecs on receivables and inventories and are repayable on June 30, 1997.

(In millions of Canadian dollars, unless otherwise noted)

11. Long-term debt (cont'd)

Borrowings under the $300 million secured revolving bank credit bear interest at the rate for bankers' acceptances plus 1-5/8% per annum for Canadian dollar borrowings and at the LIBOR (London Interbank Offered Rate) plus 1-5/8% per annum for U.S. dollar borrowings. As at December 31, 1994, the average rate on U.S. dollar borrowings was 7.7% (1993 - 5.1%). There was no Canadian dollar borrowing amount outstanding as at December 31, 1994. The average rate on Canadian dollar borrowings as at December 31, 1993 was 6.1%.

As at December 31, 1994, the Corporation had outstanding letters of credit for an amount of $9 million.

The indentures under which certain debt instruments were issued contain restrictive covenants, including a limitation on the Corporation's ability to pay dividends on its common shares.

Debentures and Term Loan, as at December 31, 1994, due for retirement, sinking fund provisions or purchase fund requirements in each of the next five years amounted to:

1995	1996	1997	1998	1999
$ 9	$ 12	$ 152	$ 22	$ 268

The fair value of the Corporation's long-term debt, including the portion due within one year, based on quoted market prices for all debt except debt owed to banks, which is assumed to be repayable at par value, amounted to $1,171 million as at December 31, 1994 (1993 - $1,176 million).

12. Other liabilities

	1994	1993
Provision for site restoration costs	$ 40	$ 28
Provision for indemnifications, product warranty and related claims	15	-
Pension liability	49	56
	$ 104	$ 84

13. Commitments and contingencies

Environment

The Federal, Québec and Ontario governments have adopted new environmental regulations that apply to Domtar's pulp and paper and packaging facilities. These regulations require Domtar to make substantial capital expenditures to comply with new effluent and air emission standards at its current facilities by 1995 and 1996, depending on the jurisdiction. Based on current operations, Domtar estimates that it will need to make approximately $190 million in additional capital expenditures to comply with these pulp and paper and packaging environmental regulations.

Domtar is continuing to take remedial action at a number of former operating sites, especially in the wood preserving sector, due to possible soil, sediment or groundwater contamination. The process of investigation and remediation is lengthy and subject to the uncertainties of changing legal requirements, developing technological applications, and the allocation of liability among potentially responsible parties.

As at December 31, 1994, Domtar had a $45 million (1993 - $36 million) provision to cover site restoration costs known and those determinable over a five-year period, of which $40 million (1993 - $28 million) was included in other liabilities. However, additional costs, not yet identified, could be incurred over a longer period of time for site restoration. Site restoration costs in the amount of $12 million were charged to earnings in 1994 (1993 - $7 million) and were included in the "Selling, general and administrative expenses" account.

(in millions of Canadian dollars, unless otherwise noted)

13. Commitments and contingencies (cont'd)

Contingencies
Domtar is party to environmental and other claims and lawsuits which are being contested.

Management believes that any additional site restoration costs and the resolution of these claims and lawsuits will not have a material adverse effect on Domtar's financial condition.

Lease commitments
Domtar has entered into operating leases to charter ships and to lease property and equipment. Minimum future rental payments under these operating leases, determined as at December 31, 1994, were as follows:

1995	1996	1997	1998	1999	Thereafter	Total
$ 16	$ 14	$ 11	$ 7	$ 6	$ 50	$ 104

Total rental expense amounted to $19 million in 1994 (1993 - $19 million; 1992 - $18 million).

14. Convertible debentures

The $150 million 8% Convertible Unsecured Subordinated Debentures (the "Convertible Debentures") which mature on March 18, 2003, are convertible at the option of each holder into common shares, at any time, on or before March 19, 1998, at a conversion price of $6.50 per common share and at a conversion price of $7.25 thereafter. The Convertible Debentures are redeemable, subject to certain conditions, at the Corporation's option, at any time, on or after September 18, 1996 or at the option of each holder on March 19, 1998. The Corporation may, at its option, repay the principal amount of the Convertible Debentures on redemption or at maturity in cash or by the issuance of common shares.

Since the provisions of the Convertible Debentures permit the Corporation to repay the holders with common shares, the Convertible Debentures are presented with shareholders' equity.

The fair value of the Convertible Debentures, based on the quoted market price, amounted to $231 million as at December 31, 1994 (1993 - $225 million).

(In millions of Canadian dollars, unless otherwise noted)

15. Stated capital

Preferred shares

The outstanding preferred shares were as follows as at December 31:

	1994		1993		1992	
	Number of shares	$	Number of shares	$	Number of shares	$
Serial preferred shares						
Series A	**69,576**	**2**	73,152	2	75,752	2
Series B	**2,670,000**	**67**	2,790,000	70	2,910,000	73
Series C	**6,000,000**	**150**	6,000,000	150	6,000,000	150
		219		222		225

The authorized serial preferred shares consist of preferred shares issuable in an unlimited number of series, ranking equal with respect to the payment of dividends and the distribution of assets.

The Series A Preferred Shares are non-voting and redeemable at the Corporation's option at $25.00 per share since April 1, 1994. These shares carry a cumulative cash dividend per share of $2.25 per annum. On April 2, 1992, 2,522,248 shares were retracted at the holders' option at $25.00 per share.

The Series B Preferred Shares are non-voting and redeemable at the Corporation's option at $25.00 per share. These shares carry a cumulative cash dividend equivalent to 72% of the bank prime rate.

The Corporation has undertaken to make all reasonable efforts to purchase quarterly for cancellation 1% of the number of Series A and Series B Preferred Shares outstanding on April 2, 1992 at prices not exceeding $25.00 per share. In connection therewith, Preferred Shares purchased for cancellation were as follows:

	1994		1993	
	Number of shares	Average price per share	Number of shares	Average price per share
Series A	**3,576**	**$ 24.38**	2,600	$ 24.40
Series B	**120,000**	**$ 16.18**	120,000	$ 13.23

On March 12, 1992, a $150 million non-interest bearing loan was converted into 6,000,000 Series C Preferred Shares of the Corporation. The Series C Preferred Shares are non-voting and redeemable at the Corporation's option at any time at $25.00 per share or at the holder's option on June 30, 2000, in which case the redemption price may, at the option of the Corporation, be paid in cash or by the issuance of common shares at a price equal to 87-1/2% of the then quoted market value. These shares carry a cumulative cash dividend, payable quarterly and commencing to accrue on June 30, 1995 at an annual rate equivalent to 20% of the bank prime rate and increasing by 20% per year thereafter until June 30, 1999. Should the June 30, 2000 redemption not occur, the dividend rate will change to a rate equal to bank prime rate plus an increasing specified percentage thereafter.

(In millions of Canadian dollars, unless otherwise noted)

15. Stated capital (cont'd)

Common shares

There is no limit on the number of common shares the Corporation is authorized to issue. The changes in the number of outstanding common shares and their aggregate stated value from January 1, 1992 to December 31, 1994 were as follows:

	1994		1993		1992	
	Number of shares	$	Number of shares	$	Number of shares	$
Balance at beginning of year	**127,076,533**	**716**	126,234,894	711	100,892,045	559
Shares issued						
For cash	**-**	**-**	-	-	25,000,000	150
Stock option and share purchase plans	**353,758**	**3**	495,281	3	342,849	2
Other	**18,070**	**-**	346,358	2	-	-
Balance at end of year	**127,448,361**	**719**	127,076,533	716	126,234,894	711
Book value per common share at end of year		**$ 5.23**		$ 4.69		$ 5.57

Book value per common share is the sum of the stated value of common shares, retained earnings (deficit) and accumulated foreign currency translation adjustments divided by the number of common shares outstanding at year-end.

Earnings (loss) per share are calculated using the weighted average number of common shares outstanding during the year, 1994 - 127,262,447 shares (1993 - 126,707,678 shares; 1992 - 121,126,164 shares).

Fully diluted earnings per share reflect the most dilutive effect which would have resulted if the convertible debentures and Series C Preferred Shares had been converted into common shares and if the stock options had been exercised as of January 1, 1994. The number of shares in the calculation of the fully diluted earnings was 172,195,026.

Executive Stock Option and Share Purchase Plan

The Executive Stock Option Plan introduced during 1988 was amended in 1993 and renamed the Executive Stock Option and Share Purchase Plan (the "Plan"). The Plan is administered by the Executive Management and Compensation Committee (the "Committee") of the Board of Directors.

Under the Plan, Options may be granted to selected eligible employees, including officers of the Corporation and its subsidiaries, at the market value on the day immediately preceeding the date of the grant less a discount, if any, at the discretion of the Committee, not exceeding the maximum permitted by regulatory authorities (the "Specified Price"). One-fourth of the Options may be exercised at the end of each twelve-month period following the date of the grant, unless otherwise determined by the Commitee at the date of the grant. Options expire ten years after the date of the grant. The exercise of 84% of the Options granted in 1994 and all of those granted in 1993 cannot occur before the third anniversary of the grant. After such date, they become wholly exercisable. Financial assistance is discretionary on the part of the Corporation upon the exercice of Options.

Prior to 1993, employees were granted, simultaneously with the grant of an Option, Stock Appreciation Rights (the "SARs") equivalent to one-half of the common shares subject to such Option. A SAR entitles the holder to receive payment, either in cash or in common shares, or in a combination thereof, of an amount equal to the excess of the market value of a common share on the day of exercise of the SAR over the related Specified Price. As at December 31, 1994, 703,587 outstanding Options were subject to SARs. Since 1993, the grant of SARs is discretionary and none have been granted.

(In millions of Canadian dollars, unless otherwise noted)

15. Stated capital (cont'd)

Under the Plan, rights to purchase common shares (the "Rights") may also be granted by the Committee at the Specified Price for a period of thirty days after the date of the grant. Financial assistance is available from the Corporation at the time of exercise of a Right. All loans must be paid in full no later than the tenth anniversary date of making the grant or sooner if the common shares are sold or if the employee leaves Domtar. Any discount applied to the market value of the common shares to establish the Specified Price of the Rights must be reimbursed if the common shares are sold within a period of twelve months of the exercise of such Rights. In 1994, 141,894 shares were issued pursuant to the exercise of Rights at prices equal to the market price at the date the Rights were granted less 10% (between $7.37 and $7.43). As at December 31, 1994, no Rights were outstanding.

In addition, employees who have exercised their Rights will receive from the Corporation on the third anniversary of the date of exercise, provided that they still qualify as eligible executives on such date, one common share (the "Bonus Share") for every four common shares purchased on the exercise of such right and still owned by them. As at December 31, 1994, 75,133 Bonus Shares could be issued in the future assuming all conditions are then met.

As at December 31, 1994, 5,000,000 (1993 - 5,000,000; 1992 - 2,000,000) common shares were authorized for issuance under the Plan. Options granted during 1993 were at a price equal to the market price at the date the Options were granted. There were no Options granted in 1992. As at December 31, 1994, there were outstanding 1,612,446 Options, of which 626,380 were exercisable, and 351,794 SARs were also outstanding.

Changes during 1994 in the number of Options outstanding were as follows:

	Number of Options	Specified prices		
Outstanding at beginning of year	**1,565,624**	**$ 6.38**	**-**	**$ 15.00**
Options granted during 1994	**376,797**	**8.19**	**-**	**8.25**
Options cancelled during 1994	**329,975**	**6.38**	**-**	**15.00**
Outstanding at end of year	**1,612,446**	**$ 6.38**	**-**	**$ 15.00**

Employee Share Purchase Plans

Employee share purchase plans were introduced in 1988 for substantially all Canadian employees and in 1989 for substantially all U.S. employees. Under the plans, employees other than those eligible for the Executive Stock Option and Share Purchase Plan are eligible to purchase common shares at a price of 90% of the market value. Common shares are purchased under the plans on monthly (U.S. plan) or quarterly (Canadian plan) investment dates. Shares purchased under the Canadian plan are subject to a mandatory twelve-month holding period. Employees who hold the shares for 18 months following the date of acquisition are entitled to receive additional common shares equivalent to 10% of the cost of such shares. As at December 31, 1994, 2,200,000 (1993 and 1992 - 2,150,000) common shares were authorized for issuance under the plans. During the year, 211,864 (1993 - 288,270; 1992 - 342,849) common shares were issued under the plans at an average price of $7.34 (1993 - $6.06; 1992 - $5.67) per share. Since their inception, 1,758,607 shares were issued under these plans.

(In millions of Canadian dollars, unless otherwise noted)

16. Foreign exchange

Accumulated foreign currency translation adjustments

	1994	1993	1992
Balance at beginning of year	**$ (19)**	$ (19)	$ (19)
Effect of changes in exchange rates during the year:			
On the net investment in foreign subsidiaries	**10**	10	24
On certain long-term debt denominated in foreign currency designated as a hedge of the net investment in foreign subsidiaries	**(13)**	(10)	(24)
Balance at end of year	**$ (22)**	$ (19)	$ (19)

Derivative financial instruments

Gains and losses on options which serve to hedge the Corporation's foreign currency exposure with respect to anticipated U.S. dollar revenues are recognized upon exercise and are included in sales.

In order to reduce the potential negative effect of a rising Canadian dollar, the Corporation has entered into various hedging arrangements. As at December 31, 1994, the Corporation had the right but not the obligation to sell U.S.$250 million at an average rate of U.S.$0.75 during 1995. In addition, the Corporation had entered into a hedging arrangement for U.S.$180 million whereby it had the right but not the obligation to sell U.S.$180 million at an average rate of U.S.$0.76 throughout 1995 and 1996, but was also obligated to sell U.S.$180 million during the same period at a rate of U.S.$0.71 if the Canadian dollar was trading below U.S.$0.71. Based upon the forward and spot rates of exchange at December 31, 1994, there was a net unrealized loss of $3 million with respect to these contracts.

17. Cash provided by (invested in) continuing operations working capital

	1994	1993	1992
Change in operating working capital from continuing operations:			
Receivables	**$ (57)**	$ (10)	$ (29)
Inventories	**25**	16	(3)
Prepaid expenses	**5**	(2)	(6)
Trade and other payables	**19**	16	11
Income and other taxes payable	**(1)**	(2)	(2)
	(9)	18	(29)
Add (deduct):			
Working capital of businesses divested	**(42)**	(20)	-
Changes in working capital not affecting cash position	**(3)**	15	-
Foreign currency translation adjustments relating to working capital of self-sustained operations	**1**	1	2
	$ (53)	$ 14	$ (27)

(In millions of Canadian dollars, unless otherwise noted)

18. Pension and other postretirement benefit plans

Domtar has several pension plans covering substantially all employees. These plans are generally contributory in Canada and non-contributory in the United States. In Canada, plan benefits are based primarily on years of service and each employee's highest average eligible earnings during any consecutive 60-month period. In the United States, plan benefits for unionized employees are based on a fixed amount per number of years of service, while plan benefits for non-unionized employees are based on the conversion into an annuity of an amount equal to the accumulation of annual contributions expressed as a percentage of salary. Such percentage is a function of the age of the employee. The assets of the pension plans are invested primarily in listed common stock and fixed income securities.

The pension expense and the obligation for pension benefits are actuarially determined using management's best estimate assumptions. These include: a discount rate of 8.0% (1993 and 1992 - 8.0%) to calculate the present value of the projected benefit obligation; a long-term average annual rate of return of 8.0% (1993 and 1992 - 8.0%) on plan assets; an average annual rate of increase for the unionized employees of 5.0% (1993 and 1992 - 5.0%) and an average annual rate of increase for the non-unionized employees of 3.5% until 1998 and 5.0% thereafter (1993 and 1992 - 5.0%) in compensation levels unless rate increases have already been committed through labour agreements.

Pension expense

The components of pension expense were as follows:

	1994	1993	1992
Service cost - present value of obligation for pension benefits earned by plan members during the year	**$ 8**	$ 8	$ 9
Interest cost on projected benefit obligation	**42**	44	43
Assumed return from investing pension fund assets	**(39)**	(42)	(42)
Net amortization and other	**-**	(2)	(6)
Net pension expense	**$ 11**	$ 8	$ 4

The actual return generated by investing pension fund assets during 1994 was $6 million (1993 - $102 million; 1992 - $38 million), resulting in a shortfall of $33 million (1993 - excess of $60 million; 1992 - shortfall of $4 million) compared to the assumed return. The excess or shortfall is deferred and amortized in future years, on the basis that the assumed return is the most realistic long-term expectation and that short-term market gains or losses should not distort the pension expense for the year.

(In millions of Canadian dollars, unless otherwise noted)

18. Pension and other postretirement benefit plans (cont'd)

Funding

Domtar's funding policy is to contribute annually the amount required to provide for benefits earned in the year and to fund past service liabilities over periods not exceeding those permitted by the applicable regulatory authorities. Past service liabilities primarily arise from improvements to plan benefits.

The funded status of the plans was as follows:

	As at December 31, 1994 For plans in which		As at December 31, 1993 For plans in which	
	Assets exceed benefits earned	Benefits earned exceed assets	Assets exceed benefits earned	Benefits earned exceed assets
Plan assets at fair value	**$ 504**	**$ 10**	$ 619	$ 10
Deduct:				
Present value of benefits earned to date based on current compensation levels				
Vested	**457**	**31**	494	33
Non-vested	**20**	**2**	13	3
Accumulated benefit obligation	**477**	**33**	507	36
Present value of future increases in compensation levels	**22**	**-**	30	-
Projected benefit obligation	**499**	**33**	537	36
Plan assets in excess of (less than) projected benefit obligation	**$ 5**	**$ (23)**	$ 82	$ (26)
The above excess (deficiency) is comprised of amounts to be amortized over the expected average remaining service life of plan members and reflected in future earnings, namely:				
Net asset (obligation) as at January 1, 1987, the implementation date of the current accounting policy	**$ 9**	**$ (3)**	$ 13	$ (4)
Prior service cost of retroactive benefits resulting from plan amendments since January 1, 1987	**(36)**	**(2)**	(46)	(1)
Net gain (loss) resulting from better (worse) than projected performance	**62**	**(2)**	129	(5)
Reduction in obligation due to changes in assumptions	**3**	**-**	25	1
	38	**(7)**	121	(9)
Net pension liability included in other liabilities, representing pension costs expensed in excess of amounts funded	**(33)**	**(16)**	(39)	(17)
	$ 5	**$ (23)**	$ 82	$ (26)

(In millions of Canadian dollars, unless otherwise noted)

18. Pension and other postretirement benefit plans (cont'd)

Other postretirement benefits

Domtar provides group health care and life insurance benefits to certain retirees, their spouses and unmarried dependents. The cost of providing these benefits, which is charged against earnings as incurred, amounted to $3 million in 1994 (1993 and 1992 - $5 million).

19. Related party transactions

Domtar is not aware of having entered into any transaction other than on normal commercial terms and in the ordinary course of business with either of its major shareholders Société générale de financement du Québec (directly and indirectly through its wholly-owned subsidiary Dofor Inc.) and Caisse de dépôt et placement du Québec or any party related thereto other than the conversion, in 1992, of a $150 million non-interest bearing loan from the Société de développement industriel du Québec in 6,000,000 Series C Preferred Shares.

20. Segmented information

The operations and assets of Domtar by industry segment and by geographic area were as follows:

By industry segment	**1994**	1993	1992
Sales			
Fine papers	**$ 847**	$ 722	$ 670
Pulp and forest products	**305**	202	189
Total - pulp and paper	**1,152**	924	859
Packaging	**445**	363	353
Construction materials	**544**	416	409
	$ 2,141	$ 1,703	$ 1,621
Operating profit (loss) (A)			
Fine papers	**$ 37**	$ (14)	$ (59)
Pulp and forest products	**75**	7	(4)
Total - pulp and paper	**112**	(7)	(63)
Packaging	**25**	(22)	(2)
Construction materials	**39**	(23)	(47)
	176	(52)	(112)
Unusual items (B)	**12**	-	(21)
	$ 188	$ (52)	$ (133)

(In millions of Canadian dollars, unless otherwise noted)

20. Segmented information (cont'd)

	1994	1993	1992
Identifiable assets (C)			
Pulp and paper	**$ 1,577**	$ 1,664	$ 1,648
Packaging	**322**	311	320
Construction materials	**414**	429	496
	2,313	2,404	2,464
Assets under construction	**80**	32	61
Corporate	**448**	255	145
	$ 2,841	$ 2,691	$ 2,670
Amortization			
Pulp and paper	**$ 90**	$ 90	$ 99
Packaging	**18**	17	16
Construction materials	**35**	36	38
	$ 143	$ 143	$ 153
Additions to property, plant and equipment			
Pulp and paper	**$ 206**	$ 90	$ 57
Packaging	**21**	6	6
Construction materials	**16**	11	12
	243	107	75
Corporate	**-**	-	1
	$ 243	$ 107	$ 76
By geographic area			
Sales			
Canada			
Within Canada	**$ 976**	$ 827	$ 887
To United States	**762**	579	427
Offshore	**46**	38	79
	1,784	1,444	1,393
United States	**357**	259	228
	$ 2,141	$ 1,703	$ 1,621
Intercompany sales between geographic areas (D)	**$ 724**	$ 271	$ 39
Operating profit (loss) (A)			
Canada	**$ 156**	$ (28)	$ (100)
United States	**20**	(24)	(12)
	176	(52)	(112)
Unusual items	**12**	-	(21)
	$ 188	$ (52)	$ (133)

(In millions of Canadian dollars, unless otherwise noted)

20. Segmented information (cont'd)

	1994	1993	1992
Identifiable assets (C)			
Canada	**$ 2,057**	$ 2,129	$ 2,240
United States	**336**	307	285
	2,393	2,436	2,525
Corporate	**448**	255	145
	$ 2,841	$ 2,691	$ 2,670

(A) Operating profit (loss) represents sales, reflecting transfer prices at market value, less allocable expenses before financing expenses and income taxes.

(B) The operating profit (loss) by industry segment for 1994 and 1992 after unusual items was as follows:

	1994	1992
Fine papers	**$ 37**	$ (72)
Pulp and forest products	**102**	(7)
Total - pulp and paper	**139**	(79)
Packaging	**25**	(5)
Construction materials	**24**	(49)
	$ 188	$ (133)

(C) Identifiable assets are those which are directly used in segment operations or geographic areas. Corporate assets are principally short-term investments, certain non-trade receivables, prepaid expenses and other assets.

(D) Sales reflect transfer prices at market value. In both 1994 and 1993, a U.S. subsidiary sold directly on the U.S. market certain products manufactured in Canada by the Corporation rather than acting as a selling agent for these products.

(In millions of Canadian dollars, unless otherwise noted)

21. United States generally accepted accounting principles

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) which, in the case of Domtar, conform in all material respects with GAAP in the United States (U.S. GAAP), except as set forth below.

(a) Earnings and balance sheet adjustments

Earnings adjustments

	1994	1993	1992
Net earnings (loss) in accordance with Canadian GAAP	**$ 75**	$ (111)	$ (159)
Pension cost, net of income taxes (1)	**(3)**	(3)	2
Unrealized exchange loss on translation of long-term debt, net of income taxes (2)	**(14)**	(10)	(26)
Unrealized gain (loss) on forward exchange contracts, net of income taxes (3)	**-**	1	(5)
Postretirement benefit cost other than pensions, net of income taxes (5)	**(3)**	(3)	-
Difference in the determination of income taxes (6)	**(9)**	(14)	-
Net earnings (loss) before cumulative effect of accounting changes	**46**	[illegible]	(188)
Cumulative effect of accounting changes (7)	**(2)**	(16)	-
Net earnings (loss) in accordance with U.S. GAAP	**44**	(156)	(188)
Dividend requirements of preferred shares	**3**	3	5
Net earnings (loss) in accordance with U.S. GAAP applicable to common shares	**$ 41**	$ (159)	$ (193)
Per common share in accordance with U.S. GAAP			
Basic			
Net earnings (loss) before cumulative effect of accounting changes	**$ 0.34**	$ (1.12)	$ (1.60)
Cumulative effect of accounting changes	**(0.02)**	(0.13)	-
Net earnings (loss) in accordance with U.S. GAAP	**$ 0.32**	$ (1.25)	$ (1.60)
Fully diluted			
Net earnings before cumulative effect of accounting changes	**$ 0.29**		
Cumulative effect of accounting changes	**(0.01)**		
Net earnings in accordance with U.S. GAAP	**$ 0.28**		

(In millions of Canadian dollars, unless otherwise noted)

21. United States generally accepted accounting principles (cont'd)

Balance sheet adjustments

	1994		1993	
	Canadian GAAP	**U.S. GAAP**	**Canadian GAAP**	**U.S. GAAP**
Other assets (1)(2)	**$ 120**	**$ 75**	$ 103	$ 78
Trade and other payables (4)	**311**	**314**		
Long-term debt (8)	**1,168**	**1,318**	1,148	1,298
Deferred income taxes (6)	**101**	**23**	66	-
Other liabilities (1)(5)	**104**	**170**	84	138
Convertible debentures and shareholders' equity (1) to (8)	**1,036**	**850**	967	804

(1) The determination of the net pension cost in accordance with U.S. GAAP differs with respect to the valuation of plan assets at January 1, 1987 and the basis used to determine the expected return on plan assets.

(2) Unrealized exchange gains and losses arising on the translation, at exchange rates prevailing on the balance sheet date, of long-term debt repayable in a foreign currency are deferred and amortized over the remaining life of the related debt. Under U.S. GAAP, such exchange gains and losses are included in earnings.

(3) Gains and losses arising on forward exchange contracts are included in earnings only at maturity. Under U.S. GAAP, unrealized gains and losses are included in earnings as recognized.

(4) Under Canadian GAAP, the cost of providing postemployment benefits can either be charged against earnings and funded in the year incurred or provided for on an accrual basis. As allowed by Canadian GAAP, Domtar is accounting for postemployment benefits on a cash basis. Under U.S. GAAP, postemployment benefit costs are charged against earnings on an accrual basis rather than on a cash basis.

(5) Under Canadian GAAP, the cost of providing postretirement benefits other than pensions can either be charged against earnings and funded in the year incurred or provided for on an accrual basis. As allowed by Canadian GAAP, Domtar is accounting for postretirement benefits other than pensions on a cash basis. Under U.S. GAAP, postretirement benefit costs other than pensions are charged against earnings on an accrual basis rather than on a cash basis.

(6) Under Canadian GAAP, income taxes are provided on the deferral method basis whereas under U.S. GAAP, income taxes are provided on the liability method basis.

(7) For U.S. GAAP reporting basis only, Domtar has made an accounting change effective January 1, 1994 adopting statement number 112 concerning accounting for postemployment benefits. Domtar had made two accounting changes effective January 1, 1993: it had adopted statement number 106 concerning accounting for postretirement benefits other than pensions and statement number 109 concerning accounting for income taxes. Under U.S. GAAP, the cumulative effect of accounting changes is reflected in earnings in the year the change is made.

(8) Since the provisions of the Convertible Debentures permit the Corporation to repay the holders with common shares, under Canadian GAAP, the Convertible Debentures are presented with shareholders' equity. Under U.S. GAAP, the Convertible Debentures are presented as long-term debt.

(In millions of Canadian dollars, unless otherwise noted)

21. United States generally accepted accounting principles (cont'd)

(b) Supplementary disclosures

Postretirement benefits other than pensions

The components of postretirement benefit cost were as follows:

	1994	1993
Service cost for the year	**$ 2**	$ 2
Interest cost on accumulated postretirement benefit obligation	**7**	8
Net postretirement benefit cost	**$ 9**	$ 10

The following table sets forth the funded status of the plans reconciled to the accrued postretirement benefit cost:

	1994	1993
Accumulated postretirement benefit obligation:		
Retirees	**$ 51**	$ 56
Fully eligible active plan participants	**37**	52
Other active plan participants	**5**	6
	93	114
Net gain (loss) to be amortized	**22**	(4)
Accrued postretirement benefit cost	**$ 115**	$ 110

For measurement purposes, a 13% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1994 (1993 - 15%); the rate was assumed to decrease gradually to 7% in 2002 and to remain at that level thereafter. A 1% increase in this annual trend rate would have increased the accumulated postretirement benefit obligation as at December 31, 1994 by approximately $8 million (1993 - $10 million) and would have increased the net postretirement benefit cost by approximately $1 million for the year ended December 31, 1994 (1993 - $1 million).

The average compensation growth and discount rate assumptions used to estimate the accumulated postretirement benefit obligation were 5.0% and 8.0%, respectively, as at January 1, 1993, as at December 31, 1993 and as at December 31, 1994.

Postemployment benefits

For U.S. GAAP reporting purposes only, Domtar adopted Financial Accounting Standard No. 112 concerning accounting for postemployment benefits (FAS 112), effective January 1, 1994. FAS 112 requires that expenses be recognized on the accrual basis rather than the cash basis. The cumulative effect of the adoption of FAS 112 was a charge to earnings of $2 million, net of income taxes. Earnings for the fiscal years prior to January 1, 1994 were not restated. Had this change in accounting policy not been made, the net earnings before cumulative effect of accounting changes under U.S. GAAP would have been the same as reported for the year ended December 31, 1994.

SUPPLEMENTARY INFORMATION

December 31, 1994

Selected Financial Data

(in millions of Canadian dollars, except per share amounts)

	1994	1993	1992	1991	1990
Canadian GAAP					
Sales	**$ 2,141**	$ 1,703	$ 1,621	$ 1,535	$ 2,009
Operating profit (loss) before unusual items	**176**	(52)	(112)	(118)	(44)
Unusual items	**12**	-	(21)	-	(332)
Operating profit (loss)	**188**	(52)	(133)	(118)	(376)
Earnings (loss) from continuing operations	**33**	(125)	(156)	(144)	(331)
Net earnings (loss)	**75**	(111)	(159)	(148)	(294)
Total assets	**2,841**	2,691	2,670	2,742	2,824
Long-term debt	**1,168**	1,148	976	1,181	986
Total liabilities	**1,805**	1,724	1,741	1,878	1,900
Convertible debentures and shareholders' equity	**1,036**	967	929	864	924
Per common share					
Earnings (loss) from continuing operations (1)					
Basic	**0.23**	(1.01)	(1.33)	(1.65)	(3.85)
Fully diluted	**0.22**				
Net earnings (loss) (1)					
Basic	**0.56**	(0.90)	(1.36)	(1.69)	(3.44)
Fully diluted	**0.46**				
Cash dividends declared	-	-	-	-	0.3049

The selected financial data presented above is prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). In the case of Domtar, these differ in certain respects from accounting principles generally accepted in the United States ("United States GAAP"), as shown in the reconciliation presented in note 21 to the consolidated financial statements on page 39. Earnings and balance sheet data based on United States GAAP follow.

	1994	1993	1992	1991	1990
United States GAAP					
Earnings (loss) from continuing operations	**$ 4**	$ (154)	$ (185)	$ (127)	$ (319)
Net earnings (loss) before cumulative effect of accounting changes	**46**	(140)	(188)	(131)	(282)
Net earnings (loss)	**44**	(156)	(188)	(131)	(282)
Total assets	**2,796**	2,666	2,667	2,789	2,849
Long-term debt	**1,318**	1,298	976	1,181	986
Total liabilities	**1,946**	1,862	1,710	1,928	1,945
Shareholders' equity	**850**	804	957	861	904
Per common share					
Earnings (loss) from continuing operations (1)	**0.01**	(1.24)	(1.57)	(1.47)	(3.72)
Net earnings (loss) before cumulative effect of accounting changes (1)					
Basic	**0.34**	(1.12)	(1.60)	(1.51)	(3.30)
Fully diluted	**0.29**				
Net earnings (loss) (1)					
Basic	**0.32**	(1.25)	(1.60)	(1.51)	(3.30)
Fully diluted	**0.28**				

(1) The 1994, 1992 and 1990 results include the after-tax impact of unusual items of $0.03, $(0.11) and $(2.64) per share, respectively.

SUPPLEMENTARY INFORMATION

December 31, 1994

Selected Production Statistics

(in thousands of metric tons unless otherwise noted)

	1994	1993	1992	1991	1990
Fine papers (in thousands of short tons)	**764**	737	660	609	645
Market pulp	**236**	200	218	134	132
Lumber (in millions of board feet)	**463**	371	314	289	304
Containerboard	**574**	534	469	437	419
Corrugated containers (in millions of square meters, double-faced equivalent)	**575**	512	442	456	491
Gypsum board (in millions of square feet)	**2,974**	2,677	2,676	2,265	2,905

Quarterly Financial Information (unaudited)

(in millions of Canadian dollars, except per share amounts)

	1st	2nd	3rd	4th	Year
1994					
Sales	**$ 460**	**$ 511**	**$ 573**	**$ 597**	**$ 2,141**
Operating profit before unusual items	**7**	**30**	**64**	**75**	**176**
Unusual items	**-**	**-**	**-**	**12**	**12**
Operating profit	**7**	**30**	**64**	**87**	**188**
Earnings (loss) from continuing operations	**(21)**	**(2)**	**22**	**34**	**33**
Net earnings (loss)	**(15)**	**34**	**22**	**34**	**75**
Per common share (1)					
Earnings (loss) from continuing operations					
Basic	**(0.17)**	**(0.02)**	**0.16**	**0.26**	**0.23**
Fully diluted			**0.13**	**0.21**	**0.22**
Net earnings (loss)					
Basic	**(0.12)**	**0.26**	**0.16**	**0.26**	**0.56**
Fully diluted		**0.20**	**0.13**	**0.21**	**0.46**
1993					
Sales	$ 397	$ 421	$ 438	$ 447	$ 1,703
Operating loss	(26)	(14)	(2)	(10)	(52)
Loss from continuing operations	(39)	(31)	(25)	(30)	(125)
Net loss	(35)	(28)	(22)	(26)	(111)
Per common share					
Loss from continuing operations	(0.31)	(0.26)	(0.20)	(0.24)	(1.01)
Net loss	(0.27)	(0.24)	(0.18)	(0.21)	(0.90)

(1) The fourth quarter results for 1994 include the after-tax impact of unusual items of $0.03 per share.

HISTORICAL SUMMARY

(In millions of Canadian dollars, except per share amounts and statistical data)

			(1) 1994
Operations	Sales		$ 2,141
	Expenses and unusual items	Operating expenses	1,965
		Unusual items	(12)
		Financing expenses	137
		Income taxes	18
	Earnings (loss) from continuing operations		33
	Discontinued operations, net of income taxes		42
	Extraordinary items, net of income taxes		-
	Net earnings (loss)		$ 75
Financial position	Assets	Cash and short-term investments and deposits	$ 313
		Other current assets	575
		Property, plant and equipment	1,809
		Other assets	144
		Total assets	$ 2,841
	Liabilities and convertible debentures and shareholders' equity	Short-term financing	$ -
		Other current liabilities	353
		Long-term debt	1,168
		Deferred credits and minority interest	79
		Deferred income taxes	101
		Other liabilities	104
		Convertible debentures	150
		Preferred shares	219
		Common shareholders' equity	667
		Total liabilities and convertible debentures and shareholders' equity	$ 2,841
Cash flows	Operations	Net cash provided by (used for) operating activities	$ 179
	Investments	Additions to property, plant and equipment	(243)
		Acquisition of businesses	-
		Net proceeds from business divestitures	297
		Other	(231)
	Financing	Long-term debt and equity financing	3
		Change in revolving bank credit	(21)
		Change in short-term financing	-
		Redemption, repayments and other	(16)
	Dividend payments		(3)
	Increase (decrease) in net cash position		$ (35)
Other data	Per common share	Earnings (loss) from continuing operations (2)	$ 0.23
		Net earnings (loss) (2)	$ 0.56
		Cash dividends declared	-
		Year-end book value	$ 5.23
		Market price	
		Toronto & Montréal stock exchanges	
		High	$ 10 1/8
		Low	$ 6 1/2
	Ratios	Return on common shareholders' equity	11 %
		Debt ratio (3)	46:54
	Other statistics	Number of common shareholders	10,303
		Number of preferred shareholders	624
		Common shares outstanding (millions)	127.4
		Number of employees	8,985
		Salaries, wages and benefits	$ 551

(1) Certain comparative amounts have been reclassified to conform with the presentation adopted in the year ended December 31, 1994.

(2) The 1994, 1992, 1990 and 1989 results include the after-tax impact of unusual items of $0.03, $(0.11), $(2.64) and $(0.25) per share, respectively.

(3) Ratio of debt, including retractable preferred shares for the years 1985 to 1991, net of short-term investments and of short-term deposits held in trust, to convertible debentures and shareholders' equity.

HISTORICAL SUMMARY

1993	1992	1991	1990	1989	1988	1987	1986	1985
$ 1,703	$ 1,621	$ 1,535	$ 2,009	$ 2,168	$ 2,148	$ 2,074	$ 1,848	$ 1,652
1,755	1,733	1,653	2,053	2,063	2,005	1,851	1,660	1,535
-	21	-	332	34	-	-	-	-
136	107	84	96	72	33	13	4	16
(63)	(84)	(58)	(141)	(5)	38	80	73	32
(125)	(156)	(144)	(331)	4	72	130	111	69
14	(3)	(4)	37	29	39	31	26	27
-	-	-	-	-	-	-	8	14
$ (111)	$ (159)	$ (148)	$ (294)	$ 33	$ 111	$ 161	$ 145	$ 110
$ 115	$ 42	$ 115	$ 2	$ 35	$ 44	$ 105	$ 252	$ 201
548	557	517	616	798	727	685	572	522
1,898	1,955	2,038	2,115	2,263	2,207	1,943	1,421	1,063
130	116	72	91	183	208	180	53	34
$ 2,691	$ 2,670	$ 2,742	$ 2,824	$ 3,279	$ 3,186	$ 2,913	$ 2,298	$ 1,820
$ -	$ -	$ -	$ 69	$ 238	$ 108	$ -	$ -	$ -
331	465	308	378	409	400	429	445	370
1,148	976	1,181	986	804	814	728	321	276
95	103	112	123	138	158	157	125	77
66	118	209	277	408	413	361	281	225
84	79	68	67	27	17	14	-	-
150	-	-	-	-	-	-	-	-
222	225	146	146	147	149	149	150	76
595	704	718	778	1,108	1,127	1,075	976	796
$ 2,691	$ 2,670	$ 2,742	$ 2,824	$ 3,279	$ 3,186	$ 2,913	$ 2,298	$ 1,820
$ 19	$ (86)	$ (22)	$ 68	$ 205	$ 199	$ 292	$ 324	$ 229
(107)	(76)	(93)	(200)	(322)	(407)	(511)	(457)	(284)
-	-	-	(6)	(73)	(24)	(256)	(18)	(16)
28	-	8	158	97	15	-	-	-
3	13	8	10	(2)	(22)	(13)	9	22
365	350	99	118	33	157	435	284	162
(25)	(194)	219	16	65	-	-	-	-
-	-	(69)	(104)	65	106	-	-	-
(195)	(86)	(15)	(24)	(41)	(11)	(57)	(47)	(34)
(3)	(7)	(12)	(39)	(56)	(56)	(55)	(51)	(37)
$ 85	$ (86)	$ 123	$ (3)	$ (29)	$ (43)	$ (165)	$ 44	$ 42
$ (1.01)	$ (1.33)	$ (1.65)	$ (3.85)	$ 0.04	$ 1.03	$ 1.60	$ 1.39	$ 1.03
$ (0.90)	$ (1.36)	$ (1.69)	$ (3.44)	$ 0.23	$ 1.12	$ 1.69	$ 1.56	$ 1.32
-	-	-	0.3049	0.4878	0.4878	0.4878	0.4732	0.3854
$ 4.69	$ 5.57	$ 7.12	$ 8.94	$ 12.78	$ 13.07	$ 12.49	$ 11.36	$ 9.86
$ 9 1/4	$ 8 3/8	$ 10	$ 13 1/2	$ 18	$ 16 1/2	$ 25 3/4	$ 18 1/8	$ 11 5/8
$ 4 7/8	$ 4 1/4	$ 7	$ 9	$ 12 7/8	$ 12	$ 11 1/2	$ 10 7/8	$ 8 3/8
(18) %	(23) %	(21) %	(33) %	2 %	9 %	14 %	14 %	12 %
52:48	55:45	59:41	57:43	49:51	45:55	39:61	19:81	23:77
10,868	11,284	11,673	12,434	13,791	14,578	14,730	15,199	17,706
704	806	2,021	2,322	2,615	2,945	3,144	3,408	2,698
127.1	126.2	100.9	87.0	86.7	86.3	86.1	85.9	80.8
9,821	10,270	11,145	13,280	15,819	16,053	15,871	15,332	15,295
$ 562	$ 564	$ 585	$ 667	$ 723	$ 702	$ 653	$ 598	$ 560

Vegetable inks were used in the production of the Domtar Inc. 1994 Annual Report.
This annual report was lithographed on the following papers which are over 50% recycled paper, including 20% post-consumer fibers:

Cover:

Cornwall Coated Cover, coated one side, recycled,
12 pt - 310 (M) - 155 lb - 252 g / m2

Inside pages (first section):

Page 1 to 4: Naturals Text, Silk, Satin, 140 (M) - 70 lb - 104 g / m2
Page 5 to 22: Naturals Text, Plaster, Wove, 140 (M) - 70 lb - 104 g / m2
Page 23 to 30: Naturals Text, Kraft, Wove, 140 (M) - 70 lb - 104 g / m2

Separation:

Naturals Text, Brass, Lined, 140 (M) - 70 lb - 104 g / m2

Inside pages (Financial Review):

Naturals Text, Silk, Satin, 140 (M) - 70 lb - 104 g / m2

Cornwall Coated Cover and Natural Text and Cover papers
are manufactured by Domtar Specialty Fine Papers Division.

Production:
Communications Department, Domtar Inc.

Legal Deposit, 1st quarter 1994
Bibliothèque nationale du Québec
ISBN: 2-9802318-9-4

Printed in Canada

CORPORATE HISTORY

Domtar was incorporated in 1929 as Dominion Tar & Chemical Company Limited. But the organization's roots go back a further quarter of a century, to 1903 and the construction of a coal tar distillation plant at Sydney, Nova Scotia.

Dominion Tar, which had relocated in Montréal, Québec, successfully weathered the Great Depression of 1930 and experienced renewed growth as Canadian industry geared up to support the Allied effort in World War II and, subsequently, to meet the demands of an unprecedented post-war economic boom. The 1950s were a period of sustained growth for Dominion Tar and marked the beginnings of the Corporation's expansion into the pulp and paper and construction materials businesses. In 1961, a complex multiple-merger involving Dominion Tar, fine paper manufacturer Howard Smith Paper Mills, Limited (already partly owned by Dominion Tar), newsprint maker St. Lawrence Corporation Limited and packaging specialist Hinde and Dauch Limited resulted in the formation of one of Canada's first conglomerates. Domtar's name was officially adopted in 1965.

Domtar established a major presence in the United States beginning in 1978 with the purchase of a gypsum wallboard business in California; this business has since expanded across Canada and the United States through acquisitions and constructions of new facilities.

Other initiatives which helped shape today's dynamic, globally-oriented Domtar included construction during the late 1980s of the world-scale communication papers mill at Windsor, Québec, and the development of its industry-leading melamine decorative panels business, and the re-focusing of Domtar on its integrated fine papers, packaging, and construction materials sectors through the divestitures of its salt and other chemical operations (1990), wood preserving (1993), newsprint and groundwood specialties (1994), and roofing and insulation (1994) businesses.